

**TOWN OF PANTEGO, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**



**GMS**

GEORGE | MORGAN | SNEED

**TOWN OF PANTEGO, TEXAS**  
Annual Financial Report  
For the Year Ended September 30, 2013

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Pantego, Texas

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Pantego, Texas, (the "Town") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town'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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure 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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town, 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 management's discussion and analysis, budgetary comparison information, and Texas Municipal Retirement System Schedule of Funding Progress on pages 4 – 13 and pages 47 – 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

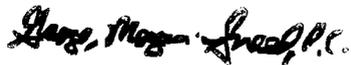
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014, on our consideration of the Town of Pantego, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the Town of Pantego, Texas' internal control over financial reporting and compliance.



Weatherford, Texas  
February 12, 2014

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## **MANAGEMENT'S DISCUSSION & ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The Town of Pantego, Texas, we offer readers of The Town of Pantego's financial statements this narrative overview and analysis of the financial activities of The Town of Pantego for the fiscal year ended September 30, 2013.

### FINANCIAL HIGHLIGHTS

- The assets of the Town of Pantego exceeded its liabilities at the close of the most recent fiscal year by \$10,176,733 (*net position*) compared to \$9,499,750 for the prior year. Of this amount, \$3,594,552 (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$724,233. The Town's governmental activities net position increased by \$500,954 and the business-type activities net position increased by \$223,279.
- As of the close of the current fiscal year, the Town of Pantego's governmental funds reported combined ending fund balances of \$3,810,482, which is an increase of \$159,679 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,618,969, or 46% of total general fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net position and how they have changed. Net position – the difference between the Town's assets and liabilities – are one way to measure the Town's financial health or position.

- Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town, one needs to consider additional nonfinancial factors such as changes in the Town's tax base.

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). All of the Town's services are included here, such as general and administrative, public safety, streets and bridges, public improvements and planning and zoning in the governmental activities and water and sewer services in the business-type or proprietary activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Economic Development Corporation for which the Town is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A-1 and B-1 of this report.

#### **Fund financial statements.**

The fund financial statements provide more detailed information about the Town's most significant funds-not the Town as a whole. Funds are used by the Town to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Town Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Most of the Town's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide a reconciliation that explains the relationship (or differences) between them.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and street improvement construction fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts annual appropriated budgets for the general fund, special revenue funds, debt service funds and capital projects funds. A budgetary comparison schedule has been provided for all budgeted funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C-1 through C-4 of this report.

**Proprietary funds.** Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The Town maintains one type of proprietary fund. The Town uses enterprise funds to account for its water and sewer operations.

The basic proprietary fund financial statements can be found on Exhibits D-1 through D-3 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on Exhibits E-1 of this report.

**Notes to the basic financial statements** provide additional information that is necessary for a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-46 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$10,176,733 as of September 30, 2013.

Below is a summary of the Town's Statement of Net position, which has been restated for accounting changes implemented in 2013.

**Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 3,542,877	\$ 3,138,232	\$ 1,867,949	\$ 1,511,713	\$ 5,410,826	\$ 4,649,945
Capital assets	5,359,849	5,411,987	996,800	1,146,278	6,356,649	6,558,265
Total Assets	8,902,726	8,550,219	2,864,749	2,657,991	11,767,475	11,208,210
Long-term liabilities	1,250,895	1,399,764	-	-	1,250,895	1,399,764
Other liabilities	198,407	150,735	141,440	157,961	339,847	308,696
Total liabilities	1,449,302	1,550,499	141,440	157,961	1,590,742	1,708,460
Net Position:						
Invested in capital assets						
net of related debt	4,518,024	4,409,937	996,800	1,146,278	5,514,824	5,556,215
Restricted	1,067,357	894,261	-	-	1,067,357	894,261
Unrestricted	1,868,043	1,695,522	1,726,509	1,353,752	3,594,552	3,049,274
Total Net Position	\$ 7,453,424	\$ 6,999,720	\$ 2,723,309	\$ 2,500,030	\$ 10,176,733	\$ 9,499,750

The largest portion of the Town's net position \$5,514,824 (54%) reflects its investment in capital assets (e.g. land, construction in progress, buildings, improvements other than buildings, machinery and equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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 capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position \$1,067,357 (11%) represents resources that are subject to external restrictions on how they may be used. The \$3,594,552 (35%) balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Below is a summary of the Town's Statement of Activities, which has been restated for accounting changes implemented in 2013.

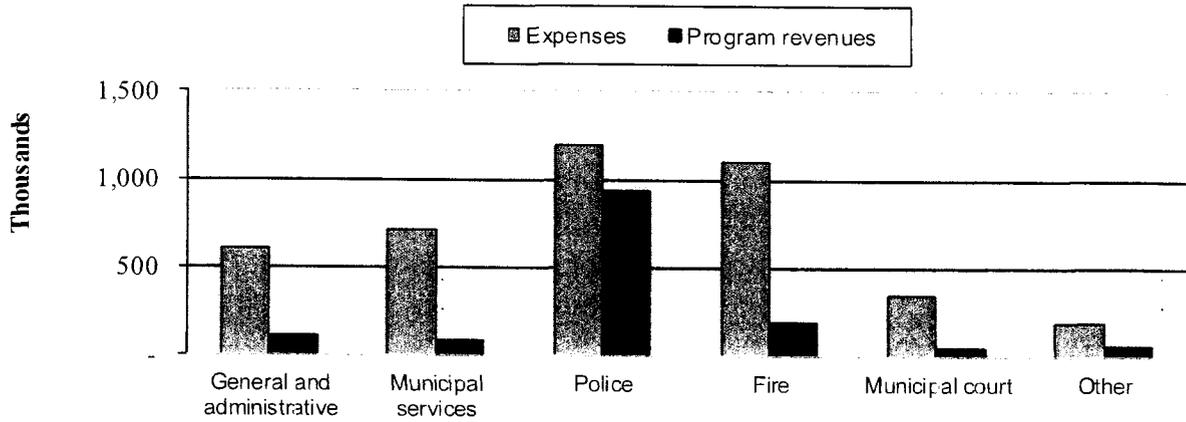
**Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,285,417	\$ 1,108,872	\$ 1,218,637	\$ 1,151,062	\$ 2,504,054	\$ 2,259,934
Operating grants and contributions	58,715	31,613	-	-	58,715	31,613
Capital grants and contributions	95,862	-	-	-	95,862	-
General revenues:						
Property taxes	1,016,196	993,101	-	-	1,016,196	993,101
Sales taxes	1,640,680	1,314,812	-	-	1,640,680	1,314,812
Franchise taxes	301,675	494,345	-	-	301,675	494,345
Investment earnings	6,991	6,555	826	646	7,817	7,201
Other revenue	32,431	225,777	-	7,208	32,431	232,985
Change in equity of component unit	219,803	(164,387)	-	-	219,803	(164,387)
<b>Total revenues</b>	<b>4,657,770</b>	<b>4,010,688</b>	<b>1,219,463</b>	<b>1,158,916</b>	<b>5,877,233</b>	<b>5,169,604</b>
Expenses						
General and administrative	605,615	687,031	-	-	605,615	687,031
Municipal services	716,928	546,033	-	-	716,928	546,033
Police	1,194,325	1,296,885	-	-	1,194,325	1,296,885
Fire	1,102,614	1,104,320	-	-	1,102,614	1,104,320
Municipal court	343,778	326,926	-	-	343,778	326,926
Other	154,960	96,640	-	-	154,960	96,640
Interest and fiscal agent charges	38,596	61,993	-	-	38,596	61,993
Water and sewer	-	-	996,184	890,868	996,184	890,868
<b>Total expenses</b>	<b>4,156,816</b>	<b>4,119,828</b>	<b>996,184</b>	<b>890,868</b>	<b>5,153,000</b>	<b>5,010,696</b>
Increase (decrease) in net position before transfers	500,954	(109,140)	223,279	268,048	724,233	158,908
Transfers	-	1,664	-	(1,664)	-	-
Increase (decrease) in net position	500,954	(107,476)	223,279	266,384	724,233	158,908
Net Position October 1 (restated)	6,952,470	7,107,196	2,500,030	2,233,646	9,452,500	9,340,842
<b>Net Position September 30</b>	<b>\$ 7,453,424</b>	<b>\$ 6,999,720</b>	<b>\$ 2,723,309</b>	<b>\$ 2,500,030</b>	<b>\$ 10,176,733</b>	<b>\$ 9,499,750</b>

**Governmental Activities.** Governmental activities increased the Town's net position by \$500,954 in the current year compared with a \$107,476 decrease in the prior year. Total governmental activities revenues increased \$647,082 (16%) primarily due to increased sales tax and court revenues. Total governmental activities expenses increased \$36,988 (1%).

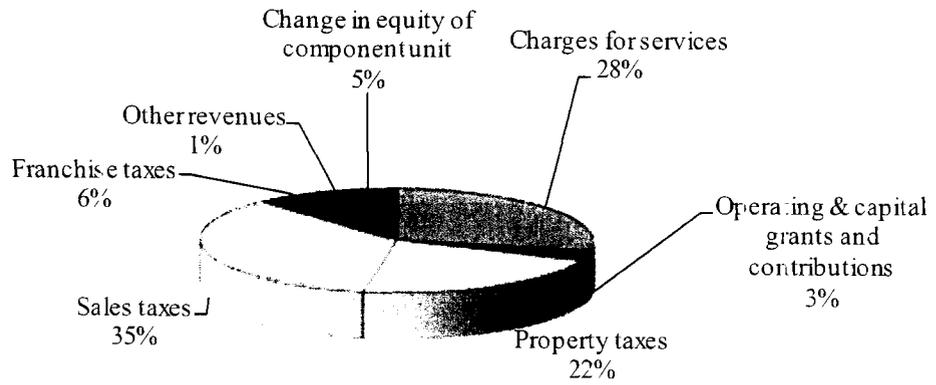
Below are two graphs summarizing governmental revenue and expense:

### Expenses and Program Revenues - Governmental Activities



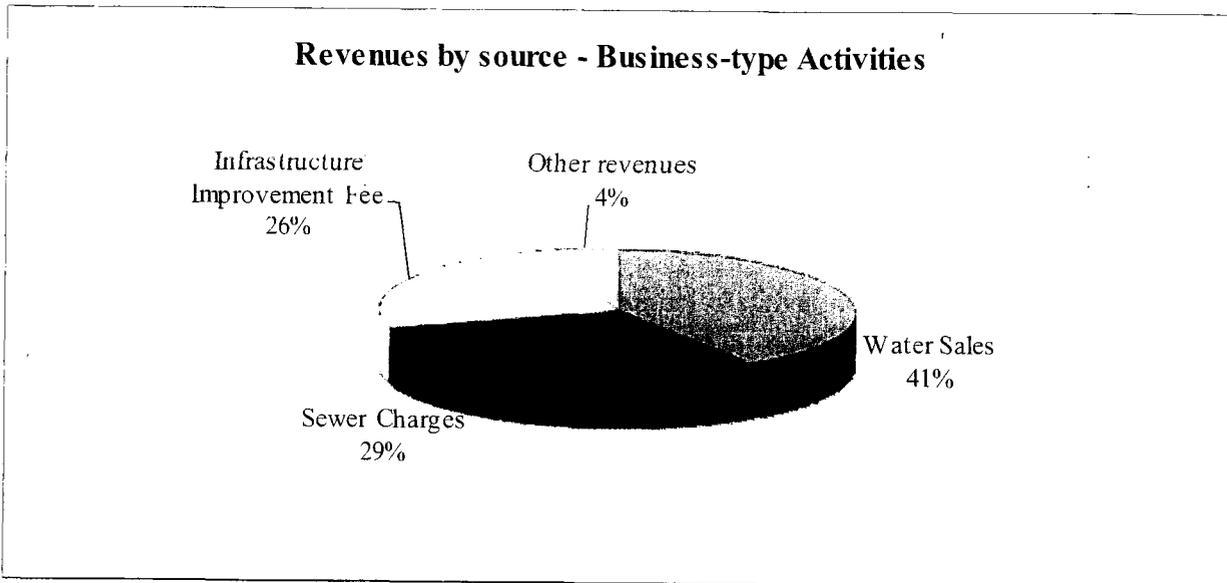
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### Revenues by Source - Governmental Activities

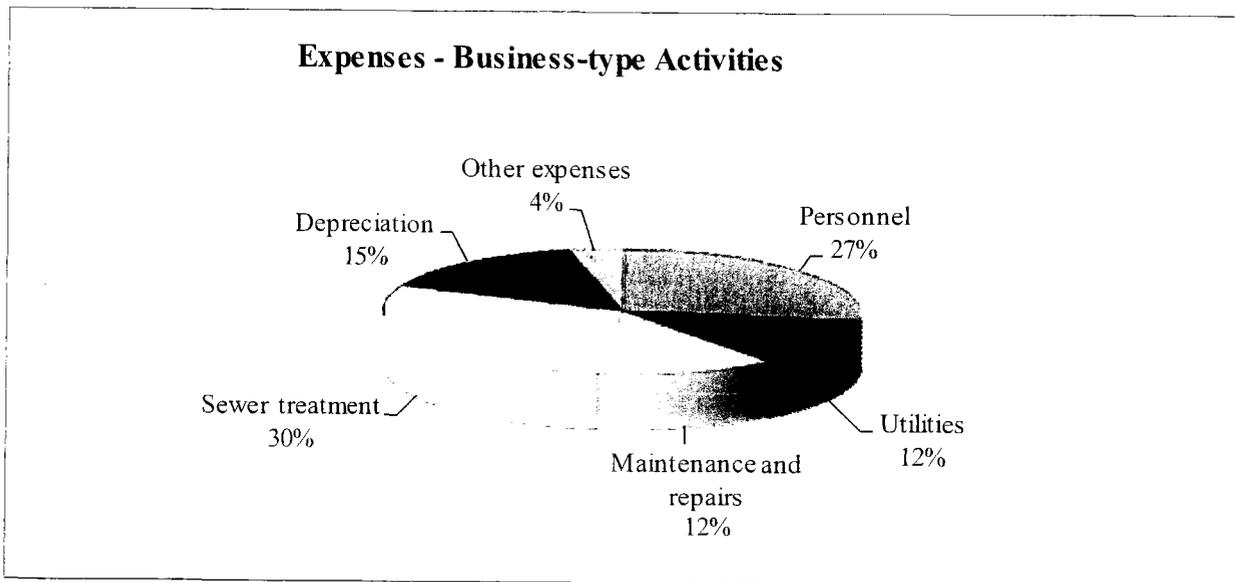


**Business-type activities.** Business-type activities increased the Town's net position by \$223,279 in the current year compared to an increase in net position of \$266,384 in the prior year. The business-type activities total revenues increased \$60,547 (5%). Charges for services increased \$67,575, primarily because the infrastructure improvement fee implemented in March 2012 was in place for 12 months in the current year. Business-type activities expenses increased \$105,316 (12%), primarily due to major utility line repairs and increase in wastewater treatment charges.

Below are two graphs summarizing business-type activities revenue and expense:



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## **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,810,482. Of the total combined fund balance, \$1,618,969 (42%) constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,618,969. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 46% or 169 days of total general fund expenditures. The fund balance of the general fund increased \$119,806 compared to a \$85,191 decrease in the prior year. Key factors in this change are as follows:

- Revenues increased \$403,731. General fund property taxes increased \$28,764 due to an increase in the M&O tax rate and a \$3 million increase in the taxable value of property within the Town. Sales tax increased \$271,569 and court fines, permits, and fees increased \$66,969.
- Expenditures increased \$27,061.

The street improvement construction capital projects fund was created to account for infrastructure maintenance and improvements funded with a ¼ ¢ sales tax. Fund balance of the street improvement construction fund increased by \$6,972 to \$1,509,455. Sales tax revenue increased \$54,299 from the previous year to \$271,672. Expenditures for street improvement were \$209,042.

**Proprietary funds.** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$1,726,509. Total net position increased by \$223,279. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

### **General Fund Budgetary Highlights**

During the fiscal year the Town amended its budget once. General fund transfers out were increased by \$245,000 to account for transfers to the equipment replacement fund. Overall, actual expenditures of the general fund were \$3,347 less than budgeted.

## Capital Assets

The Town's investment in capital assets for its governmental and business type activities as of September 30, 2013, amounts to \$6,356,649 (net of accumulated depreciation). Major capital asset events during the current fiscal year included the following:

### Governmental Activities:

- LP15-Monitor's/Defibrillators for \$100,727
- 2 Chevy Tahoes for \$66,675
- \$161,280 resurfacing Peachtree Lane and Country Club Court
- \$71,307 fiber optic cable and server upgrades

### The Town of Pantego's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 211,263	\$ 211,263	\$ 61,971	\$ 61,971	\$ 273,234	\$ 273,234
Construction in progress	272,484	15,000	7,208	7,208	279,692	22,208
Buildings	1,069,760	1,119,716	-	-	1,069,760	1,119,716
Improvements	619,365	723,461	927,621	1,077,099	1,546,986	1,800,560
Machinery and equipment	1,020,728	966,448	-	-	1,020,728	966,448
Infrastructure	2,166,249	2,376,099	-	-	2,166,249	2,376,099
Total	<u>\$ 5,359,849</u>	<u>\$ 5,411,987</u>	<u>\$ 996,800</u>	<u>\$ 1,146,278</u>	<u>\$ 6,356,649</u>	<u>\$ 6,558,265</u>

Additional information on the Town's capital assets can be found in the notes to the basic financial statements.

## Long-Term Debt

At the end of the year, the Town had \$841,825 in bonded debt and capital leases outstanding. Of this amount \$160,000 are general obligation bonds backed by the full faith and credit of the government and \$170,000 represent bonds secured by a combination of property taxes and a limited pledge of other revenues. The capital lease obligations of \$511,825 pertain to machinery and equipment financed with capital leases.

### Town of Pantego's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 160,000	\$ 260,000	\$ -	\$ -	\$ 160,000	\$ 260,000
Certificates of Obligation	170,000	195,000	-	-	170,000	195,000
Capital lease obligations	511,825	547,050	-	-	511,825	547,050
Total	<u>\$ 841,825</u>	<u>\$ 1,002,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 841,825</u>	<u>\$ 1,002,050</u>

More detailed information about the Town's debt is presented in the notes to the basic financial statements.

## **Economic factors and the Next Year's Budgets and Rates**

Although the nationwide economic forecast for the future continues to be uncertain, the Town continues to remain in a viable position. Trends in sales tax revenue seem to indicate the local economy may be rebounding. A 7% increase in sales tax revenue as compared to the prior fiscal year actual was budgeted for fiscal year 2014. The Town's efforts toward economic development, by attracting retail businesses, should be increased and become a major focus for years to come.

Ad Valorem taxes are expected to remain flat for fiscal year 2014. The Town changed the property tax rate from 0.41 per \$100 taxable value to 0.42 per \$100 taxable value for fiscal year 2014. The Town does, however, expect an overall small increase in other general revenues of the governmental activities from municipal court and licenses and permits fees. Nonetheless, investment income is expected to remain comparable to fiscal year 2013 as interest rates on investments of public funds are projected to remain low.

Grant awards have been awarded toward the completion of some capital projects. Among these are a \$260,000 grant from Tarrant County to partially fund the Park Row project which has a total projected cost of \$1.7 million, and also a fully funded project from the Texas Department of Transportation to landscape and irrigate Highway 303 corridor through both Pantego and Dalworthington Gardens projected to cost \$189,000.

The repair and upgrade of the Town's streets and roads continues to be a top priority of Council and staff. As stated above, the most significant activity the Town will undertake in the upcoming year will be the Park Row project. The renovation and rehabilitation of the Park Row corridor will be the largest project the Town will complete since the Highway 303, Bowen Road intersection, which was completed in late 1998. The economic impact of upgrading the infrastructure on the commercial area should bring in more retail business and create an economic benefit in the near future. While on the lesser scale, it is hoped that the Highway 303 landscape project will also help create a climate for economic progress.

## **Request for Information**

This financial report is designed to provide a general overview of the Town's finances. Questions concerning any of the information provided in this report or requests for additional information may be obtained by contacting the Town of Pantego, Attn: Finance Department, 1614 South Bowen Road, Pantego, Texas 76013.

## **BASIC FINANCIAL STATEMENTS**

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**TOWN OF PANTEGO, TEXAS**  
**Statement of Net Position**  
**September 30, 2013**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pantego Economic Development Corporation
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 3,696,459	\$ 1,488,171	\$ 5,184,630	\$ 319,249
Receivables (net of allowances for uncollectibles)				
Property taxes	42,037	-	42,037	-
Other taxes	436,533	-	436,533	93,871
Accounts	274,017	251,246	525,263	-
Inventory	-	13,081	13,081	-
Restricted assets:				
Cash and investments	-	115,451	115,451	-
Notes receivable	-	-	-	37,874
Equity interest in component unit	(906,169)	-	(906,169)	-
Capital assets:				
Nondepreciable	483,747	69,179	552,926	101,865
Depreciable, net of accumulated depreciation	4,876,102	927,621	5,803,723	-
<b>Total Assets</b>	8,902,726	2,864,749	11,767,475	552,859
<b>LIABILITIES:</b>				
Accounts payable	86,061	25,989	112,050	25,051
Accrued payroll liabilities	110,507	-	110,507	-
Interest payable	1,839	-	1,839	8,977
Current liabilities payable from restricted assets:				
Customer deposits	-	115,451	115,451	-
Noncurrent liabilities:				
Due within one year	330,352	-	330,352	130,000
Due in more than one year	920,543	-	920,543	1,295,000
<b>Total Liabilities</b>	1,449,302	141,440	1,590,742	1,459,028
<b>NET POSITION:</b>				
Investments in capital assets, net of debt	4,518,024	996,800	5,514,824	101,865
Restricted (Expendable)	1,067,357	-	1,067,357	(1,008,034)
Unrestricted net position	1,868,043	1,726,509	3,594,552	-
<b>Total Net Position</b>	\$ 7,453,424	\$ 2,723,309	\$ 10,176,733	\$ (906,169)

The notes to the financial statements are an integral part of this statement.

**TOWN OF PANTEGO, TEXAS**  
**Statement of Activities**  
**For the Year Ended September 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General and administrative	\$ 605,615	\$ 112,296	\$ -	\$ -
Municipal services	716,928	81,398	-	-
Police	1,194,325	939,283	-	-
Fire	1,102,614	99,515	-	95,862
Municipal court	343,778	50,155	-	-
Other	154,960	2,770	58,715	-
Interest and fiscal agent charges	38,596	-	-	-
Total governmental activities	<u>4,156,816</u>	<u>1,285,417</u>	<u>58,715</u>	<u>95,862</u>
Business-type activities:				
Water and sewer	<u>996,184</u>	<u>1,218,637</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>996,184</u>	<u>1,218,637</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 5,153,000</u>	<u>\$ 2,504,054</u>	<u>\$ 58,715</u>	<u>\$ 95,862</u>
<b>Component Unit</b>				
Panetego Economic Development Corporation				
General and administrative	\$ 113,294	\$ -	\$ -	\$ -
Economic development grants	42,500	-	-	-
Other	95,979	-	-	-
Interest and fiscal agent charges	73,292	-	-	-
Total component unit	<u>\$ 325,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
Taxes:  
    Property taxes, levied for general purposes  
    Property taxes, levied for debt service  
Sales  
    Franchise  
Investment earnings  
Change in net position of component unit  
Other revenue  
    Total general revenues and transfers

Change in net position

Net Position - Beginning

Prior period adjustment

Net Position - Ending

The notes to the financial statements are an integral part of this statement.

**Exhibit B-1**

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Pantego Economic Development Corporation	
\$ (493,319)	\$ -	\$ (493,319)	\$ -	
(635,530)	-	(635,530)	-	
(255,042)	-	(255,042)	-	
(907,237)	-	(907,237)	-	
(293,623)	-	(293,623)	-	
(93,475)	-	(93,475)	-	
(38,596)	-	(38,596)	-	
<u>(2,716,822)</u>	<u>-</u>	<u>(2,716,822)</u>	<u>-</u>	
-	222,453	222,453	-	
-	<u>222,453</u>	<u>222,453</u>	-	
<u>\$ (2,716,822)</u>	<u>\$ 222,453</u>	<u>\$ (2,494,369)</u>	<u>\$ -</u>	
\$ -	\$ -	\$ -	\$ (113,294)	
-	-	-	(42,500)	
-	-	-	(95,979)	
-	-	-	(73,292)	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (325,065)</u>	
\$ 880,978	\$ -	\$ 880,978	\$ -	
135,218	-	135,218	-	
1,640,680	-	1,640,680	543,344	
301,675	-	301,675	-	
6,991	826	7,817	492	
219,803	-	219,803	-	
32,431	-	32,431	1,032	
<u>3,217,776</u>	<u>826</u>	<u>3,218,602</u>	<u>544,868</u>	
500,954	223,279	724,233	219,803	
6,999,720	2,500,030	9,499,750	(1,078,722)	
<u>(47,250)</u>	<u>-</u>	<u>(47,250)</u>	<u>(47,250)</u>	
<u>\$ 7,453,424</u>	<u>\$ 2,723,309</u>	<u>\$ 10,176,733</u>	<u>\$ (906,169)</u>	

**TOWN OF PANTEGO, TEXAS**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2013**

	<u>General</u>	<u>Street Improvement Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Assets:				
Cash and cash equivalents	\$ 1,509,123	\$ 1,508,193	\$ 679,143	\$ 3,696,459
Receivables (Net of allowances for uncollectibles)				
Property taxes	37,233	-	4,804	42,037
Other taxes	389,597	46,936	-	436,533
Accounts	<u>274,017</u>	<u>-</u>	<u>-</u>	<u>274,017</u>
Total assets	<u>\$ 2,209,970</u>	<u>\$ 1,555,129</u>	<u>\$ 683,947</u>	<u>\$ 4,449,046</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 37,392	\$ 45,674	\$ 2,995	\$ 86,061
Accrued payroll liabilities	<u>110,507</u>	<u>-</u>	<u>-</u>	<u>110,507</u>
Total liabilities	<u>147,899</u>	<u>45,674</u>	<u>2,995</u>	<u>196,568</u>
Deferred inflows of resources:				
Deferred revenue	<u>437,192</u>	<u>-</u>	<u>4,804</u>	<u>441,996</u>
Fund Balances:				
Restricted	5,910	1,509,455	455,196	1,970,561
Committed	-	-	220,952	220,952
Unassigned	<u>1,618,969</u>	<u>-</u>	<u>-</u>	<u>1,618,969</u>
Total fund balances	<u>1,624,879</u>	<u>1,509,455</u>	<u>676,148</u>	<u>3,810,482</u>
Total liabilities deferred inflows and fund balances	<u>\$ 2,209,970</u>	<u>\$ 1,555,129</u>	<u>\$ 683,947</u>	<u>\$ 4,449,046</u>

**TOWN OF PANTEGO, TEXAS**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Position**  
**September 30, 2013**

Total Fund Balances - Governmental Funds	\$ 3,810,482
Capital assets used in governmental activities are not financial resources and therefore are reported in the governmental funds. The cost of these assets was \$16,474,326 and the accumulated depreciation was \$11,114,477.	5,359,849
Long-term liabilities, including \$330,000 bonds payable, \$511,825 capital lease obligations, \$302,748 net pension obligation and \$106,322 compensated absences payable are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements.	(1,250,895)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(1,839)
Property taxes, franchise taxes, ambulance service charges and municipal court fines and fees are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.	441,996
The Town's equity interest in its component unit is not a current financial resource and therefore, is not reported in the governmental funds.	(906,169)
Net Position of Governmental Activities	<u>\$ 7,453,424</u>

**TOWN OF PANTEGO, TEXAS**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2013**

	General	Street Improvement Construction	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 881,893	\$ -	\$ 137,130	\$ 1,019,023
Sales	1,369,008	271,672	-	1,640,680
Franchise	312,658	-	-	312,658
Court fines, permits, and fees	956,295	-	35,497	991,792
Ambulance service	120,927	-	-	120,927
Investment earnings	5,669	826	496	6,991
Intergovernmental	-	-	95,862	95,862
Charges for services	112,296	-	-	112,296
Miscellaneous	21,444	-	82,752	104,196
Total revenues	<u>3,780,190</u>	<u>272,498</u>	<u>351,737</u>	<u>4,404,425</u>
<b>EXPENDITURES</b>				
Current:				
General and administrative	564,540	-	-	564,540
Municipal services	385,942	-	-	385,942
Police	1,138,767	-	7,800	1,146,567
Fire	1,026,053	-	-	1,026,053
Municipal court	322,402	-	23,187	345,589
Other	53,385	-	59,289	112,674
Capital outlay	-	209,042	264,319	473,361
Debt service:				
Principal	10,752	-	216,148	226,900
Interest and fiscal agent charges	1,942	-	37,276	39,218
Total expenditures	<u>3,503,783</u>	<u>209,042</u>	<u>608,019</u>	<u>4,320,844</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>276,407</u>	<u>63,456</u>	<u>(256,282)</u>	<u>83,581</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	-	-	66,675	66,675
Proceeds from sale of capital assets	9,423	-	-	9,423
Transfers in	78,976	-	251,245	330,221
Transfers out	(245,000)	(56,484)	(28,737)	(330,221)
Total other financing sources (uses)	<u>(156,601)</u>	<u>(56,484)</u>	<u>289,183</u>	<u>76,098</u>
<b>NET CHANGE IN FUND BALANCES</b>	119,806	6,972	32,901	159,679
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>1,505,073</u>	<u>1,502,483</u>	<u>643,247</u>	<u>3,650,803</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 1,624,879</u>	<u>\$ 1,509,455</u>	<u>\$ 676,148</u>	<u>\$ 3,810,482</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF PANTEGO, TEXAS**  
**Reconciliation of 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**

Total Net Change in Fund Balances - Governmental Funds	\$ 159,679
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$471,071 of capital outlays and \$226,900 of debt principal payments is to increase net position.	697,972
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(523,209)
Current year capital leases are other financing sources in the fund financial statements. The increase in long-term debt is a decrease in net position.	(66,675)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	24,119
Current year interest payable, net pension obligation and compensated absences of the governmental funds are not due and payable in the current period and debt issuance costs are not financial resources of the current period, and, therefore are not reported as liabilities or assets in the funds. Changes in these balances are reported as expenses in the governmental activities of the Statement of Activities.	(10,735)
Current year change in net position of the component unit in which the Town has an equity interest does not provide current financial resources and is not reported as revenues in the funds.	219,803
Change in Net Position of Governmental Activities	<u>\$ 500,954</u>

The notes to the financial statements are an integral part of this statement.

**TOWN OF PANTEGO, TEXAS**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2013**

	Water and Sewer Fund
<b>ASSETS:</b>	
Current Assets:	
Cash and investments	\$ 1,488,171
Receivables (Net of allowance for uncollectibles):	
Accounts	251,246
Inventory	13,081
Restricted Assets:	
Cash and investments	115,451
Total current assets	1,867,949
Noncurrent Assets:	
Capital assets, at cost:	
Non-depreciable assets	69,179
Depreciable assets, net of accumulated depreciation	927,621
Total noncurrent assets	996,800
Total assets	2,864,749
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	25,989
Current Liabilities Payable from Restricted Assets:	
Customer deposits payable	115,451
Total current liabilities	141,440
Total liabilities	141,440
<b>NET POSITION:</b>	
Investment in capital assets, net of debt	996,800
Unrestricted	1,726,509
Total net position	\$ 2,723,309

**TOWN OF PANTEGO, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2013**

	<u>Water and Sewer Fund</u>
Operating revenues:	
Water Sales	\$ 496,323
Sewer charges	359,548
Infrastructure Improvement Fee	313,667
Late payment charges	15,350
Miscellaneous	33,749
Total operating revenue	<u>1,218,637</u>
Operating expenses:	
Personnel	270,600
Utilities	123,891
Maintenance and repairs	120,535
Franchise tax	25,008
Other	12,283
Sewage treatment - other governments	294,389
Depreciation	149,478
Total operating expenses	<u>996,184</u>
Operating income (loss)	<u>222,453</u>
Nonoperating revenues (expenses):	
Investment earnings	826
Total nonoperating revenues (expenses)	<u>826</u>
Change in Net Position	223,279
Net Position October 1, 2012	<u>2,500,030</u>
Net Position September 30, 2013	<u>\$ 2,723,309</u>

**TOWN OF PANTEGO, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2013**

	<u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,210,516
Cash paid to suppliers	(595,167)
Cash paid to employees	(270,600)
Net cash provided by operating activities	<u>344,749</u>
Cash flow from investing activities:	
Investment earnings	826
Net cash provided (used) by investing activities	<u>826</u>
Net increase (decrease) in cash and cash equivalents	345,575
Cash and cash equivalents, beginning	<u>1,258,047</u>
Cash and cash equivalents, ending	<u>\$ 1,603,622</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ <u>222,453</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	149,478
(Increase) decrease in accounts receivable	(10,661)
Increase (decrease) in accounts payable	(19,061)
Increase (decrease) in customer meter deposits	2,510
Total adjustments	<u>122,296</u>
Net cash provided by operating activities	<u>\$ 344,749</u>

**TOWN OF PANTEGO, TEXAS**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2013**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and investments	\$ <u>163,154</u>
Total assets	\$ <u><u>163,154</u></u>
<b>Liabilities</b>	
Due to others	\$ <u>163,154</u>
Total liabilities	\$ <u><u>163,154</u></u>

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## **NOTES TO BASIC FINANCIAL STATEMENTS**

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**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

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

**A. Reporting Entity**

The Town of Pantego, Texas (the Town) was incorporated January 5, 1952, and operates under a Town Council-manager form of government providing the following services as a duly incorporated general law Town as authorized by the general laws of the State of Texas and subsequent Town ordinances: public safety (police, fire, and ambulance), streets and bridges, sanitation, water and sewer, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Town of Pantego, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board, which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the Town's financial statements.

As required by generally accepted accounting principles, these financial statements present the Town and its component units. Component units are legally separate entities for which the Town is considered financially accountable or other organizations whose nature and significant relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Town.

The financial statements include one discretely component unit which has a September 30 year-end. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town.

*Discretely Presented Component Units*

The Pantego Economic Development Corporation (PEDC) was created under the Development Corporation Act of 1979 and is governed by Section 4B of the Act. PEDC is governed by a Board of Directors comprised of members of the Town Council and members appointed by the Town Council. PEDC may not issue debt without approval of the voters of the Town and the Town Council. The Town must approve changes to the PEDC's articles of incorporation, may unilaterally terminate PEDC, and has residual interest in the net position of PEDC. PEDC's activities are reported in the PEDC Sales Tax Revenue Special Revenue Fund, PEDC Debt Service Fund, and PEDC Construction Capital Projects Fund. The PEDC is reported as a discretely presented component unit in the statement of net positions and statement of activities.

Flow of Revenue – PEDC – Sales tax is the significant source of revenue for PEDC. Sales tax receipts are initially recorded in the PEDC Sales Tax Revenue Fund as sales tax revenue. Transfers are used to transfer cash to the PEDC Debt Service Fund as needed to maintain a required reserve and to make debt service payments as they become due. Transfers are also used to transfer cash in excess of debt service needs to the PEDC Construction Capital Projects Fund.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental accounting standards require reasonable separation between the primary government and its discretely presented component units, both in the financial statements and in the related notes. Because the discretely presented component units, although legally separate, have been and are operated as if each is part of the primary government, there are limited instances where special note reference or separation will be required. If no separate note reference or categorization is made, the user should assume that information presented is equally applicable.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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.

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. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property taxes, sales taxes, franchise taxes, 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. All other revenue items are considered to be measurable and available only when the government receives payment.

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Improvement Construction Capital Projects Fund* accounts for .25% sales tax used for infrastructure maintenance and improvements.

The Town reports the following major enterprise fund:

The *water and sewer fund* operates the water distribution system and the wastewater collection system.

The Town reports the following fund types:

The *Agency Funds* are used to account for resources that the Town holds on behalf of other entities as their agent.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 Town's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**D. Assets, Liabilities and Net Position or Equity**

**1. Cash and Investments**

The Town pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable.

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments that are highly liquid with maturity within three months or less when purchased. Amounts invested in Tex-Pool public investment pools are considered cash and cash equivalents. Assets reported as cash and investments are considered cash and cash equivalents for the statement of cash flows.

**2. Interfund Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

**3. Unbilled Service**

Utility operating revenues (water and sewer) are billed on monthly cycles. The Town records estimated revenues for services delivered during the fiscal year, which will be billed during the next fiscal year. Accounts receivable in the water and sewer fund includes \$125,546 of earned but unbilled revenues.

**4. Inventory**

The inventories of supplies are recorded under the purchase method. Under the purchase method the inventory is first recorded as an expense when purchased and then adjusted at the end of the year to reflect the value of inventory at that date. Inventories are valued at cost using the first-in/first-out (FIFO) method.

**5. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The Town defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated market value at the date of donation.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Buildings	5 - 50
Improvements other than buildings	3 - 30
Water and sewer system infrastructure	5 - 50
Street and storm drainage infrastructure	10 - 40
Machinery, equipment and furniture	3 - 10

**6. *Compensated Absences***

It is the Town's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. No sick pay benefits are paid upon separation from service and therefore have not been accrued in the financial statements. All vacation pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**7. *Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed.

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

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**8. Fund Balance – Governmental Funds**

The fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources:

*Nonspendable* – includes amounts that cannot be spent because they are either not spendable in form (such as prepaids or inventory) or are legally or contractually required to be maintained intact (such as endowment funds).

*Restricted* – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

*Committed* – includes amounts constrained to specific purposes by a government itself, using its highest decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint (Town Council ordinance or resolution).

*Assigned* – includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Town Council has the authority to assign amounts for specific purposes.

*Unassigned* – All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted fund balance to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been first spent out of committed funds, then assigned, and finally unassigned as needed.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The details of the fund balances of the governmental funds are as follows:

	General Fund	Street Improvement Construction	Other Governmental Funds	Total Governmental Funds
<b>Restricted</b>				
Public, Educational & Governmental (PEG) fees	\$ 5,910	\$ -	\$ -	\$ 5,910
Municipal court	-	-	71,516	71,516
Library	-	-	27,651	27,651
Animal control services	-	-	84,238	84,238
Pentego Fest	-	-	35,632	35,632
Debt service	-	-	236,159	236,159
Street improvements	-	1,509,455	-	1,509,455
<b>Committed</b>				
Equipment Replacement	-	-	220,952	220,952
<b>Unassigned</b>				
	1,618,969	-	-	1,618,969
	<u>\$ 1,624,879</u>	<u>\$ 1,509,455</u>	<u>\$ 676,148</u>	<u>\$ 3,810,482</u>

**9. Net Position**

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The following is a reconciliation of restricted fund balance reported in the governmental fund financial statements to restricted net position of the governmental activities reported in the government-wide financial statements.

Restricted Fund Balance (Exhibit C-1)	\$ 1,970,561
<b>Adjustments</b>	
Accrued interest payable restricted for debt service	(1,839)
Deferred property tax revenue restricted for debt service	4,804
Restricted- PEDC	(906,169)
Total adjustments	<u>(903,204)</u>
Restricted Net Position(Exhibit A-1)	<u>\$ 1,067,357</u>

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Net position of the PEDC component unit is negative \$906,169 because the PEDC has \$1,425,000 of tax notes outstanding that were used to construct capital assets for the governmental activities. These capital assets were transferred to the governmental activities upon completion.

**10. *Use of 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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**11. *Reclassifications***

Certain accounts and funds in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**NOTE 2: CASH AND INVESTMENTS**

Substantially all operating cash and investments are maintained in consolidated cash and investment accounts. Investment income relating to consolidated investments is allocated to the individual funds monthly based on the funds' pro-rata share of total cash and investments.

The Town's investment policy authorizes the Town to invest in obligations of the United States government and its agencies and instrumentalities, fully insured or collateralized certificates of deposit, repurchase agreements not to exceed 90 days to stated maturity, AAA-rated, SEC registered money market funds, AAA-rated Texas local government investment pools, and other interest bearing accounts at the Town's depository. During the year ended September 30, 2013, the Town did not own any types of securities other than those permitted by statute.

The Town invests idle funds in the Texas Local Government Investment Pool (TexPool). The Town's investment pool operates in a manner consistent with the SEC's Rule 2A7 of the Investment Act of 1940. The Pool is required to maintain a market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town's funds are required to be deposited and invested under the terms of a depository contract. The Town's deposits are required to be collateralized with securities held by the pledging institution's trust department or agent in the Town's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 2: CASH AND INVESTMENTS (Continued)**

Insurance Corporation (“FDIC”) Insurance. The PEDC’s deposits are secured by a separate pledge of securities and FDIC Insurance. At September 30, 2013, the Town’s deposits and those of the Pantego Economic Development Corporation were covered by FDIC Insurance or collateralized with securities held by the bank’s agent in the Town’s name.

Credit Risk– Investments

The Town controls credit risk by limiting its investments to those instruments allowed by its investment policy.

Interest Rate Risk – Investments

In accordance with its investment policy, the Town manages its exposure to declines in fair market values, to the extent possible, by attempting to match investment maturities with anticipated cash flows, thereby reducing the need to sell securities prior to maturity and by investing primarily in shorter-term securities and limiting the stated maturity of certain securities.

The Town’s investments at September 30, 2013 included the following:

<u>Investment</u>	<u>Credit Rating</u>	<u>Weighted Average Maturities</u>	<u>Percentage of Total Investments</u>	<u>Cost</u>	<u>Fair Value</u>
Investment in Tex-Pool	AAAm	74 days	100.00%	4,508,080	4,508,080
				<u>\$ 4,508,080</u>	<u>\$ 4,508,080</u>

**NOTE 3: PROPERTY TAX**

The Town’s property tax is levied each October 1, on the assessed value listed as of the prior January 1, for all real property and personal property located in the Town. Taxes are billed and due on October 1 of each year. The last date for payment without penalty is the following January 31. Delinquent penalties are added on February 1 with additional attorney fees being added on July 1. Lien attaches to properties on the February 1 following levy date. Tarrant County bills and collects the property taxes for the Town.

Property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation and by City Charter to \$1.50 per \$100 assessed valuation. The combined tax rate to finance general governmental service and debt services for the year ended September 30, 2013, was \$.41 per \$100 of assessed valuation.

In the governmental funds the Town’s property tax revenues are recognized when levied to the extent that they result in current receivables available for financing current operations. The remaining receivables are reflected in deferred revenue.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**NOTE 4: RECEIVABLES**

All receivables are shown net of an allowance for uncollectible accounts. The allowances for uncollectible accounts are based upon historical experience. Property tax and municipal court allowances for uncollectible accounts are equal to approximately 60% and 75%, of the outstanding balances at September 30. The ambulance allowance consists of 100% of accounts aged more than 120 days and 60% of accounts aged 120 days or less. The allowance for water and sewer trade accounts receivable is equal to the accounts receivable that are aged 3 or more months as of September 30. Receivables as of year-end for the Town's major and nonmajor funds, including the applicable allowances for uncollectible accounts are as follows:

	Governmental Funds				
	Street		Nonmajor Governmental	Business-type Activities	Component Unit
	General	Improvement Construction			
Receivables:					
Property taxes	\$ 93,083	\$ -	\$ 12,010	\$ -	\$ -
Other taxes	389,597	46,936	-	-	93,871
Accounts	1,565,474	-	-	258,976	-
Notes receivable	-	-	-	-	37,874
Gross receivables	2,048,154	46,936	12,010	258,976	131,745
Less: allowance					
for uncollectibles	(1,347,307)	-	(7,206)	(7,730)	-
Net total receivables	\$ 700,847	\$ 46,936	\$ 4,804	\$ 251,246	\$ 131,745

The Pantego Economic Development Corporation provides loans towards assisting local businesses with improvements to the borrower's property. Notes receivable for the year ended September 30, 2013 are as follows:

\$16,000 loan dated April 23, 2012, at 2% payable in equal monthly installments of \$638.10 over two (2) years beginning April 1, 2013, secured by the furniture, fixtures, and equipment of borrower.	\$ 11,275
\$20,000 loan dated July 20, 2012, at 2% payable in equal monthly installments of \$433.90 over five (5) years beginning August 1, 2013, secured by the furniture, fixtures, and equipment of borrower.	19,599
\$7,000 loan dated December 7, 2012, at 2% payable in equal monthly installments of \$297.78 over two (2) years beginning December 1, 2013, secured by the furniture, fixtures, and equipment of borrower.	7,000
	\$ 37,874

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 4:     RECEIVABLES** (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	General	Nonmajor Governmental	Total Governmental Funds
Deferred property taxes receivable	\$ 37,233	\$ 4,804	\$ 42,037
Franchise tax receivable	139,741	-	139,741
Ambulance service receivable	59,168	-	59,168
Municipal Court fines and fees receivable	201,050	-	201,050
	\$ 437,192	\$ 4,804	\$ 441,996

**NOTE 5:     INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund transfers for the Town's individual major funds and nonmajor funds at September 30, 2013, is as follows:

Transfer In	Transfer Out	Amount	Purpose
General	Street Improvement Construction	\$ 56,484	Administrative costs
	Other Governmental	22,492	Court security, animal control and administrative costs
Other Governmental	General Fund	245,000	Capital Purchases and Debt Service
	Other Governmental	6,245	Debt Service
Total Governmental Funds Transfers In		\$ 330,221	

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 6: CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
<b>Governmental activities:</b>					
Non - Depreciable Assets:					
Land	\$ 211,263	\$ -	\$ -	\$ -	\$ 211,263
Construction in Progress	15,000	257,484	-	-	272,484
Total non-depreciable assets	<u>226,263</u>	<u>257,484</u>	<u>-</u>	<u>-</u>	<u>483,747</u>
Depreciable Assets:					
Buildings	2,074,544	7,400	(668)	-	2,081,276
Improvements other than buildings	2,166,067	-	-	-	2,166,067
Machinery and equipment	3,987,496	206,187	(1,276,709)	-	2,916,974
Infrastructure	8,826,262	-	-	-	8,826,262
Total capital assets being depreciated	<u>17,054,369</u>	<u>213,587</u>	<u>(1,277,377)</u>	<u>-</u>	<u>15,990,579</u>
Accumulated Depreciation:					
Buildings	(954,828)	(57,356)	668	-	(1,011,516)
Improvements other than buildings	(1,442,606)	(104,096)	-	-	(1,546,702)
Machinery and equipment	(3,021,048)	(151,907)	1,276,709	-	(1,896,246)
Infrastructure	(6,450,163)	(209,850)	-	-	(6,660,013)
Total accumulated depreciation	<u>(11,868,645)</u>	<u>(523,209)</u>	<u>1,277,377</u>	<u>-</u>	<u>(11,114,477)</u>
Governmental activities capital assets, net	<u>\$ 5,411,987</u>	<u>\$ (52,138)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,359,849</u>
<b>Business-type activities:</b>					
Non - Depreciable Assets:					
Land	\$ 61,971	\$ -	\$ -	\$ -	\$ 61,971
Construction in Progress	7,208	-	-	-	7,208
Total non-depreciable assets	<u>69,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,179</u>
Depreciable Assets:					
Improvements other than buildings	4,447,409	-	(31,450)	-	4,415,959
Total capital assets being depreciated	<u>4,447,409</u>	<u>-</u>	<u>(31,450)</u>	<u>-</u>	<u>4,415,959</u>
Accumulated Depreciation:					
Improvements other than buildings	(3,370,310)	(149,478)	31,450	-	(3,488,338)
Total accumulated depreciation	<u>(3,370,310)</u>	<u>(149,478)</u>	<u>31,450</u>	<u>-</u>	<u>(3,488,338)</u>
Business-type activities capital assets, net	<u>\$ 1,146,278</u>	<u>\$ (149,478)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 996,800</u>

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 6: CAPITAL ASSETS (Continued)**

<b>Component Unit</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers &amp; Adjustments</u>	<u>Ending Balance</u>
Non - Depreciable Assets:					
Construction in Progress	\$ -	\$ 101,865	\$ -	\$ -	\$ 101,865
Total non-depreciable assets	<u>-</u>	<u>101,865</u>	<u>-</u>	<u>-</u>	<u>101,865</u>
Component unit capital assets, net	<u>\$ -</u>	<u>\$ 101,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,865</u>

The PEDC occasionally funds public infrastructure improvements. When the construction is completed the capital assets are contributed to the governmental or business-type activities.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General and administrative	\$ 39,819
Municipal services	315,156
Police	38,919
Fire	82,095
Municipal court	4,934
Other	42,286
Total depreciation expense - governmental activities	<u>\$ 523,209</u>
Business-type activities:	
Water and sewer	\$ 149,478
Total depreciation expense - business-type activities	<u>\$ 149,478</u>

**NOTE 7: LONG-TERM LIABILITIES**

The Town of Pantego and the PEDC component unit have issued general obligation bonds, certificates of obligation bonds, and tax revenue bonds to provide funds for the acquisition and construction of major capital facilities. The general obligation refunding bonds and certificates of obligation are paid by the G.O. Bonds Interest and Sinking Debt Service Fund and the sales tax revenue bonds are paid by the PEDC Debt Service Fund. The following bonds were outstanding at September 30, 2013:

**TOWN OF PANTEGO, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**NOTE 7: LONG-TERM LIABILITIES** (Continued)

Issue Description and Purpose	Maturity Date	Interest Rate	Original Principal Amount	Amount Outstanding
General Obligation Refunding Bonds				
Town refunding, Series 2004	2015	3.67%	\$ 905,000	\$ 160,000
Certificates of Obligation				
Town improvements, Series 2004	2019	3.97%	365,000	170,000
Total governmental activities			<u>\$ 1,270,000</u>	<u>\$ 330,000</u>
Sales Tax Revenue Bonds				
PEDC refunding, Series 2010	2022	4.93%	<u>\$ 1,745,000</u>	<u>\$ 1,425,000</u>

Annual debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	General Obligation		Certificates of Obligation		Sales Tax Revenue Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	\$ 105,000	\$ 5,872	\$ 25,000	\$ 6,749	\$ 130,000	\$ 68,006	\$ 340,627
2015	55,000	2,019	25,000	5,756	140,000	61,260	289,035
2016	-	-	30,000	4,764	140,000	54,401	229,165
2017	-	-	30,000	3,573	145,000	47,140	225,713
2018	-	-	30,000	2,382	160,000	39,521	231,903
2019-2023	-	-	30,000	1,191	710,000	73,174	814,365
Total	<u>\$ 160,000</u>	<u>\$ 7,891</u>	<u>\$ 170,000</u>	<u>\$ 24,415</u>	<u>\$ 1,425,000</u>	<u>\$ 343,502</u>	<u>\$ 2,130,808</u>

**TOWN OF PANTEGO, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**NOTE 7: LONG-TERM LIABILITIES** (Continued)

**Capital Lease Obligations**

Capital lease obligations as of September 30, 2013, consist of the following:

\$699,898 due in annual installments of \$86,531.44 including interest at 4.6%, maturing in July 2019, and secured by a fire truck purchased in 2010 for \$699,898.	\$ 444,882
\$30,532 due in monthly installments of \$974 including interest at 7.99%, maturing in February 2015, secured by telephone equipment purchased in 2012 for \$30,532.	15,603
\$2,205 due in monthly installments of \$84 including interest at 15.00%, maturing in February 2015, secured by telephone equipment purchased in 2012 for \$2,205.	1,308
\$66,675 due in semi-annual installments of \$8,709 including interest at 2.51%, maturing in August 2016, secured by (2) Chevy Tahoes patrol vehicles and equipment purchased in 2013 for \$66,675.	50,032
	\$ 511,825

Capital assets acquired through capital leases are as follows:

Machinery and equipment	\$ 799,310
Less: Accumulated Depreciation	(147,638)
	\$ 651,672

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

Future minimum lease payments are as follows:

Year Ending September 30,	Lease Obligations
2014	116,645
2015	109,275
2016	103,951
2017	86,532
2018	86,531
2019-2023	86,531
Total	589,465
Less interest portion	(77,640)
Obligation under capital lease	\$ 511,825

**Changes in Long-term Liabilities**

The following is a summary of long-term debt transactions for the year ended September 30, 2013:

**Changes in Long-term Liabilities**

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 260,000	\$ -	\$ 100,000	\$ 160,000	\$ 105,000
Certificates of obligation	195,000	-	25,000	170,000	25,000
	455,000	-	125,000	330,000	130,000
Capital lease obligations	547,050	66,675	101,900	511,825	94,030
Net pension obligation	294,615	377,622	369,489	302,748	-
Compensated absences	103,099	106,322	103,099	106,322	106,322
	547,050	66,675	101,900	511,825	94,030
	294,615	377,622	369,489	302,748	-
	103,099	106,322	103,099	106,322	106,322
<b>Total Governmental Activities</b>					
long-term liabilities	\$ 1,399,764	\$ 550,619	\$ 699,488	\$ 1,250,895	\$ 330,352
<b>Component Unit:</b>					
Sales tax revenue bonds	\$ 1,535,000	\$ -	\$ 110,000	\$ 1,425,000	\$ 130,000
<b>Total Component Unit</b>					
long-term liabilities	\$ 1,535,000	\$ -	\$ 110,000	\$ 1,425,000	\$ 130,000

Compensated absences and the net pension obligations of the governmental activities are paid by the general fund.

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 8: RISK MANAGEMENT**

The Town is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town is a member of the Texas Municipal League and participates in the Intergovernmental Risk Pool. Premiums are paid to the Pool who administers all claims. The Town retains, as a risk, only the deductible amount of each policy. The Town has maintained insurance coverage in all major categories of risk comparable to that of the prior year with not reduction in coverage. The amount of settlements during the past three years has not exceeded the insurance coverage.

**NOTE 9: RETIREMENT PLAN**

Plan Description

The Town 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 Town 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's website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	7%	7%
Matching ratio (Town 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, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 9: RETIREMENT PLAN (Continued)**

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 calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Town contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Town make contributions monthly. Since the Town 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:

**Schedule of Actuarial Liabilities and Funding Progress**

Fiscal Year	2011	2012	2013
Annual Required Contribution (ARC)	\$ 415,687	\$ 396,375	\$ 375,118
Interest on Net Pension Obligation	13,042	19,126	20,623
Adjustment to ARC	(10,810)	(15,345)	(18,119)
Annual Pension Cost	417,919	400,156	377,622
Contributions Made	(336,799)	(360,557)	(369,489)
Increase (Decrease) in Net Pension Obligation	81,120	39,599	8,133
Net Pension Obligation/(Asset), beginning of year	173,896	255,016	294,615
Net Pension Obligation/(Asset), end of year	<u>\$ 255,016</u>	<u>\$ 294,615</u>	<u>\$ 302,748</u>
Contributions as a percentage of ARC	81.0%	91.0%	98.5%

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

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 9: RETIREMENT PLAN** (Continued)

**General System-wide Actuarial Assumptions**

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.2 Years-Closed	26.2 Years-Closed	25.2 Years-Closed
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed	10-year Smoothed	10-year Smoothed
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation At	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.1%	2.1%	2.1%

**Funding Status and Funding Progress**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (ALL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2012	10,384,861	13,415,042	77.4%	3,030,181	2,114,593	143.3%

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

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 9: RETIREMENT PLAN** (Continued)

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.

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS**

Supplemental Death Benefits Fund

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

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

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

**Schedule of Contribution Rates:**  
**(RETIREE-only portion of the rate)**

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.02%	0.02%	100.0%
2012	0.03%	0.03%	100.0%
2013	0.03%	0.03%	100.0%

**TOWN OF PANTEGO, TEXAS**  
**Notes to Basic Financial Statements**  
**September 30, 2013**

**NOTE 11: CONTINGENT LIABILITIES**

A. Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency. These programs are governed by various statutory rules and regulations of grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the Town has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the Town's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

B. Litigation

Three lawsuits are pending against the Town and the outcome of these lawsuits is not presently determinable. The Town could potentially have a direct liability for amounts not covered by insurance. The amount of the Town's direct liability cannot be reasonably estimated at this time.

**NOTE 12: CONTRACTS AND COMMITMENTS**

A. Sewer Contracts

The Town has contracts with the City of Fort Worth and City of Arlington for the treatment of wastewater. The contracts require the City to pay varying amounts based on the costs associated with the wastewater treated. Charges for wastewater treatment during 2013 were \$221,513 for Fort Worth and \$72,876 for Arlington.

**NOTE 13: SUBSEQUENT EVENTS**

Subsequent events were evaluated through February 12, 2014, which is the date the financial statements were available to be issued.

**NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS**

The Town of Pantego and its component units implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities during the year. GASB Statement No. 63 changed the name of Exhibits A-1 and D-1 to the Statement of Net

**TOWN OF PANTEGO, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS** (Continued)

Position and net assets were changed to net position. GASB Statement No. 65 changed the classification of deferred revenues in Exhibit C-1 from liabilities to deferred inflows of resources and changed the accounting for bond issuance costs in the government-wide and proprietary fund financial statements. As a result, the beginning net position of the PEDC component unit in the government-wide Statement of Net Position was restated, effectively decreasing net position as of September 30, 2013 by \$47,250. The decrease results from no longer deferring and amortizing bond issuance costs.

The Town and its component units have also implemented GASB Statement No. 61, *Financial Reporting Entity: Omnibus – an amendment to GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. As a result the PEDC component unit changed from being reported as a blended component unit to a discretely presented component unit. Upon implementation of GASB Statement No. 61, the primary government (Town) must also recognize as an asset, its equity interest in the net position of discretely presented component units. The governmental activities have reported negative \$906,169 asset in the statement of net position to reflect its equity interest in the PEDC component unit.

**NOTE 15: FUTURE ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement is to improve the accounting and financial reporting by state and local governments for pensions. This Statement will require government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and that changes in the net pension liability be included in pension expense in the period of the change. This Statement is effective for fiscal years beginning after June 15, 2014. The Town has not yet determined the effect this Statement will have on its financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts GAAP Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 860,000	\$ 860,000	\$ 881,893	\$ 21,893
Sales	1,086,000	1,086,000	1,369,008	283,008
Franchise	331,000	331,000	312,658	(18,342)
Court fines, permits, and fees	887,347	887,347	956,295	68,948
Ambulance service	120,000	120,000	120,927	927
Investment earnings	7,500	7,500	5,669	(1,831)
Charges for services	112,300	112,300	112,296	(4)
Miscellaneous	49,575	49,575	21,444	(28,131)
Total revenues	<u>3,453,722</u>	<u>3,453,722</u>	<u>3,780,190</u>	<u>326,468</u>
<b>EXPENDITURES</b>				
Current:				
General and administrative	524,876	524,876	564,540	(39,664)
Municipal services	384,299	384,299	385,942	(1,643)
Police	1,166,317	1,166,317	1,138,767	27,550
Fire	1,050,092	1,050,092	1,026,053	24,039
Municipal court	330,546	330,546	322,402	8,144
Other	51,000	51,000	53,385	(2,385)
Debt service:				
Principal	-	-	10,752	(10,752)
Interest and fiscal agent charges	-	-	1,942	(1,942)
Total expenditures	<u>3,507,130</u>	<u>3,507,130</u>	<u>3,503,783</u>	<u>3,347</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(53,408)</u>	<u>(53,408)</u>	<u>276,407</u>	<u>329,815</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	3,000	3,000	9,423	6,423
Transfers in	82,487	82,487	78,976	(3,511)
Transfers out	-	(245,000)	(245,000)	-
Total other financing sources (uses)	<u>85,487</u>	<u>(159,513)</u>	<u>(156,601)</u>	<u>2,912</u>
<b>NET CHANGE IN FUND BALANCES</b>	32,079	(212,921)	119,806	332,727
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>1,505,073</u>	<u>1,505,073</u>	<u>1,505,073</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 1,537,152</u>	<u>\$ 1,292,152</u>	<u>\$ 1,624,879</u>	<u>\$ 332,727</u>

The notes to the required supplementary information are an integral part of this statement.

**TOWN OF PANTEGO, TEXAS**  
**Texas Municipal Retirement System**  
**Schedule of Funding Progress**

**Exhibit F-2**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (ALL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	9,504,692	12,852,924	73.9%	3,348,232	2,113,201	158.4%
12/31/2011	9,832,664	13,008,434	75.6%	3,175,770	2,084,867	152.3%
12/31/2012	10,384,861	13,415,042	77.4%	3,030,181	2,114,593	143.3%

TOWN OF PANTEGO, TEXAS  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2013

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end.

Prior to August 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage of an ordinance.

The appropriated budget is prepared by fund, function and department. The Town Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control is the department level.

Excess of Expenditures over Appropriations

General fund actual expenditures were \$3,347 less than appropriations. General and administrative, municipal services, other and debt service exceeded appropriations by \$39,664, \$1,643, \$2,385 and \$12,694 respectively. These excesses were covered by underspending in other functions.

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

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## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

*Special Revenue Funds* are used to account for specific revenues that are legally restricted to expenditure for particular purpose.

*Municipal Court Building Security Fund* – This fund is used to account for the Town’s share of fines to be used to enhance building security for municipal court.

*Municipal Court Technology Fund* – This fund accounts for the Town’s share of fines to be used for improvements to municipal court technology.

*Shamberger Fund* – This fund is used to account for the care and feeding of stray animals within the Town of Pantego.

*Cartwright Library Fund* – This fund is used to account for payments for access to the Arlington City Library by citizens of the Town.

*Pantego Fest Fund* – This fund is used to account for donations and expenditures related to Pantego Fest.

### **Debt Service Fund**

The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, general obligation principal and interest, except for those certificates of obligation serviced by the Enterprise Fund.

*G.O. Bonds Interest and Sinking Fund* – This fund is used to account for accumulation of tax revenue to pay principal and interest due on the Town’s bonds.

### **Capital Projects Fund**

The *Capital Projects Fund* accounts for all resources used for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

*Equipment Replacement Fund* – This fund is used to account for acquisition of equipment for various departments of the Town.

**TOWN OF PANTEGO, TEXAS**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**September 30, 2013**

	Special Revenue Funds				
	Municipal Court Building Security	Municipal Court Technology	Shamberger Fund	Cartwright Library	Pantego Fest
<b>Assets:</b>					
Cash and investments	\$ 41,634	\$ 30,000	\$ 87,008	\$ 27,651	\$ 35,739
Receivables (Net of allowances for uncollectibles)					
Property taxes	-	-	-	-	-
Total assets	<u>\$ 41,634</u>	<u>\$ 30,000</u>	<u>\$ 87,008</u>	<u>\$ 27,651</u>	<u>\$ 35,739</u>
<b>Liabilities, deferred inflows and fund balance:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	118	2,770	-	107
Total liabilities	<u>-</u>	<u>118</u>	<u>2,770</u>	<u>-</u>	<u>107</u>
<b>Deferred inflows of resources:</b>					
Deferred revenue	-	-	-	-	-
<b>Fund Balance:</b>					
Restricted	41,634	29,882	84,238	27,651	35,632
Committed	-	-	-	-	-
Total fund balances	<u>41,634</u>	<u>29,882</u>	<u>84,238</u>	<u>27,651</u>	<u>35,632</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 41,634</u>	<u>\$ 30,000</u>	<u>\$ 87,008</u>	<u>\$ 27,651</u>	<u>\$ 35,739</u>

Exhibit G-1

Total Special Revenue	Debt Service Funds		Capital Project Funds		Total Nonmajor Funds
	G.O. Bonds Interest and Sinking	Total Debt Service	Equipment Replacement	Total Capital Project	
\$ 222,032	\$ 236,159	\$ 236,159	\$ 220,952	\$ 220,952	\$ 679,143
-	4,804	4,804	-	-	4,804
<u>\$ 222,032</u>	<u>\$ 240,963</u>	<u>\$ 240,963</u>	<u>\$ 220,952</u>	<u>\$ 220,952</u>	<u>\$ 683,947</u>
2,995	-	-	-	-	2,995
<u>2,995</u>	-	-	-	-	<u>2,995</u>
-	4,804	4,804	-	-	4,804
219,037	236,159	236,159	-	-	455,196
-	-	-	220,952	220,952	220,952
<u>219,037</u>	<u>236,159</u>	<u>236,159</u>	<u>220,952</u>	<u>220,952</u>	<u>676,148</u>
<u>\$ 222,032</u>	<u>\$ 240,963</u>	<u>\$ 240,963</u>	<u>\$ 220,952</u>	<u>\$ 220,952</u>	<u>\$ 683,947</u>

**TOWN OF PANTEGO, TEXAS**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended September 30, 2013**

	Special Revenue Funds					Total Special Revenue
	Municipal Court Building Security	Municipal Court Technology	Shamberger Fund	Cartwright Library	Pantego Fest	
Revenues:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Court fines, permits, and fees	14,455	21,042	-	-	-	35,497
Investment earnings	-	-	165	-	-	165
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	14,657	-	-	58,716	73,373
<b>Total revenue</b>	<b>14,455</b>	<b>35,699</b>	<b>165</b>	<b>-</b>	<b>58,716</b>	<b>109,035</b>
Expenditures:						
<i>Current.</i>						
Police	-	-	-	-	-	-
Municipal court	1,181	22,006	-	-	-	23,187
Other	-	-	4,652	2,887	51,750	59,289
Capital outlay	-	-	-	-	-	-
Debt Service						
Principal	-	11,983	-	-	-	11,983
Interest and fiscal agent charges	-	506	-	-	-	506
<b>Total expenditures</b>	<b>1,181</b>	<b>34,495</b>	<b>4,652</b>	<b>2,887</b>	<b>51,750</b>	<b>94,965</b>
Excess (deficiency) of revenues over (under) expenditures	13,274	1,204	(4,487)	(2,887)	6,966	14,070
Other financing sources (uses):						
Proceeds from capital lease	-	-	-	-	-	-
Transfers in	-	6,245	-	-	-	6,245
Transfers out	(19,992)	-	(2,500)	-	-	(22,492)
<b>Total other financing sources (uses):</b>	<b>(19,992)</b>	<b>6,245</b>	<b>(2,500)</b>	<b>-</b>	<b>-</b>	<b>(16,247)</b>
Net change in fund balances	(6,718)	7,449	(6,987)	(2,887)	6,966	(2,177)
Fund Balance October 1, 2012	48,352	22,433	91,225	30,538	28,666	221,214
Fund Balance September 30, 2013	\$ 41,634	\$ 29,882	\$ 84,238	\$ 27,651	\$ 35,632	\$ 219,037

Exhibit G-2

Debt Service Funds		Capital Projects Funds		
G.O. Bonds Interest and Sinking	Total Debt Service	Equipment Replacement	Total Capital Project	Total Nonmajor Funds
\$ 137,130	\$ 137,130	\$ -	\$ -	\$ 137,130
-	-	-	-	35,497
331	331	-	-	496
-	-	95,862	95,862	95,862
-	-	9,379	9,379	82,752
<u>137,461</u>	<u>137,461</u>	<u>105,241</u>	<u>105,241</u>	<u>351,737</u>
-	-	7,800	7,800	7,800
-	-	-	-	23,187
-	-	-	-	59,289
-	-	264,319	264,319	264,319
125,000	125,000	79,165	79,165	216,148
<u>17,283</u>	<u>17,283</u>	<u>19,487</u>	<u>19,487</u>	<u>37,276</u>
<u>142,283</u>	<u>142,283</u>	<u>370,771</u>	<u>370,771</u>	<u>608,019</u>
<u>(4,822)</u>	<u>(4,822)</u>	<u>(265,530)</u>	<u>(265,530)</u>	<u>(256,282)</u>
-	-	66,675	66,675	66,675
-	-	245,000	245,000	251,245
-	-	(6,245)	(6,245)	(28,737)
-	-	305,430	305,430	289,183
(4,822)	(4,822)	39,900	39,900	32,901
<u>240,981</u>	<u>240,981</u>	<u>181,052</u>	<u>181,052</u>	<u>643,247</u>
<u>\$ 236,159</u>	<u>\$ 236,159</u>	<u>\$ 220,952</u>	<u>\$ 220,952</u>	<u>\$ 676,148</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Municipal Court Building Security Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Court fines, permits and fees	\$ 15,000	\$ 15,000	\$ 14,455	\$ (545)
Investment earnings	100	100	-	(100)
Total revenues	<u>15,100</u>	<u>15,100</u>	<u>14,455</u>	<u>(645)</u>
<b>EXPENDITURES</b>				
Current				
Municipal court	-	-	1,181	(1,181)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,181</u>	<u>(1,181)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>15,100</u>	<u>15,100</u>	<u>13,274</u>	<u>(1,826)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(19,992)</u>	<u>8</u>
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(19,992)</u>	<u>8</u>
<b>NET CHANGE IN FUND BALANCES</b>	(4,900)	(4,900)	(6,718)	(1,818)
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>48,352</u>	<u>48,352</u>	<u>48,352</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 43,452</u>	<u>\$ 43,452</u>	<u>\$ 41,634</u>	<u>\$ (1,818)</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Municipal Court Technology Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Court fines, permits and fees	\$ 18,000	\$ 18,000	\$ 21,042	\$ 3,042
Investment earnings	100	100	-	(100)
Other	15,000	15,000	14,657	(343)
Total revenues	<u>33,100</u>	<u>33,100</u>	<u>35,699</u>	<u>2,599</u>
<b>EXPENDITURES</b>				
Current				
Municipal court	12,800	12,800	22,006	(9,206)
Debt service				
Principal	12,490	12,490	11,983	507
Interest and fiscal agent charges	-	-	506	(506)
Total expenditures	<u>25,290</u>	<u>25,290</u>	<u>34,495</u>	<u>(9,205)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>7,810</u>	<u>7,810</u>	<u>1,204</u>	<u>(6,606)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	6,245	6,245
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6,245</u>	<u>6,245</u>
<b>NET CHANGE IN FUND BALANCES</b>	7,810	7,810	7,449	(361)
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>22,433</u>	<u>22,433</u>	<u>22,433</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 30,243</u>	<u>\$ 30,243</u>	<u>\$ 29,882</u>	<u>\$ (361)</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Shamberger Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 100	\$ 100	\$ 165	\$ 65
Total revenues	<u>100</u>	<u>100</u>	<u>165</u>	<u>65</u>
<b>EXPENDITURES</b>				
Current				
Other	-	-	4,652	(4,652)
Total expenditures	<u>-</u>	<u>-</u>	<u>4,652</u>	<u>(4,652)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>100</u>	<u>100</u>	<u>(4,487)</u>	<u>(4,587)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(6,000)</u>	<u>(6,000)</u>	<u>(2,500)</u>	<u>3,500</u>
Total other financing sources (uses)	<u>(6,000)</u>	<u>(6,000)</u>	<u>(2,500)</u>	<u>3,500</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	<u>(5,900)</u>	<u>(5,900)</u>	<u>(6,987)</u>	<u>(1,087)</u>
<b>FUND BALANCE OCTOBER 1, 2012</b>				
	<u>91,225</u>	<u>91,225</u>	<u>91,225</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>				
	<u><u>\$ 85,325</u></u>	<u><u>\$ 85,325</u></u>	<u><u>\$ 84,238</u></u>	<u><u>\$ (1,087)</u></u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Cartwright Library Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 100	100	\$ -	\$ (100)
Total revenues	<u>100</u>	<u>100</u>	<u>-</u>	<u>(100)</u>
<b>EXPENDITURES</b>				
Current				
Other	4,000	4,000	2,887	1,113
Total expenditures	<u>4,000</u>	<u>4,000</u>	<u>2,887</u>	<u>1,113</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,900)	(3,900)	(2,887)	1,013
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>30,538</u>	<u>30,538</u>	<u>30,538</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 26,638</u>	<u>\$ 26,638</u>	<u>\$ 27,651</u>	<u>\$ 1,013</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**G.O. Bonds Interest and Sinking - Debt Service Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 137,000	\$ 137,000	\$ 137,130	\$ 130
Investment earnings	250	250	331	81
Total revenues	<u>137,250</u>	<u>137,250</u>	<u>137,461</u>	<u>211</u>
<b>EXPENDITURES</b>				
Debt service				
Principal	125,000	125,000	125,000	-
Interest and fiscal agent charges	17,284	17,284	17,283	1
Total debt service	<u>142,284</u>	<u>142,284</u>	<u>142,283</u>	<u>1</u>
Total expenditures	<u>142,284</u>	<u>142,284</u>	<u>142,283</u>	<u>1</u>
<b>NET CHANGE IN FUND BALANCES</b>	(5,034)	(5,034)	(4,822)	212
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>240,981</u>	<u>240,981</u>	<u>240,981</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 235,947</u>	<u>\$ 235,947</u>	<u>\$ 236,159</u>	<u>\$ 212</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Street Improvement Construction Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales tax	\$ 220,000	\$ 220,000	\$ 271,672	\$ 51,672
Investment earnings	1,000	1,000	826	(174)
Intergovernmental	260,000	260,000	-	(260,000)
Total revenues	<u>481,000</u>	<u>481,000</u>	<u>272,498</u>	<u>(208,502)</u>
<b>EXPENDITURES</b>				
Capital outlay	1,337,140	1,337,140	209,042	1,128,098
Total expenditures	<u>1,337,140</u>	<u>1,337,140</u>	<u>209,042</u>	<u>1,128,098</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(856,140)</u>	<u>(856,140)</u>	<u>63,456</u>	<u>919,596</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(56,485)</u>	<u>(56,485)</u>	<u>(56,484)</u>	<u>1</u>
Total other financing sources (uses)	<u>(56,485)</u>	<u>(56,485)</u>	<u>(56,484)</u>	<u>1</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	(912,625)	(912,625)	6,972	919,597
<b>FUND BALANCE OCTOBER 1, 2012</b>				
	<u>1,502,483</u>	<u>1,502,483</u>	<u>1,502,483</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>				
	<u>\$ 589,858</u>	<u>\$ 589,858</u>	<u>\$ 1,509,455</u>	<u>\$ 919,597</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**Equipment Replacement Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ 95,862	\$ 95,862	\$ -
Other	-	-	9,379	9,379
Total revenues	<u>-</u>	<u>95,862</u>	<u>105,241</u>	<u>9,379</u>
<b>EXPENDITURES</b>				
Current				
Police	9,000	9,000	7,800	1,200
Capital Outlay	79,660	152,637	264,319	(111,682)
Debt service				
Principal	79,165	79,165	79,165	-
Interest and fiscal agent charges	41,019	41,019	19,487	21,532
Total expenditures	<u>208,844</u>	<u>281,821</u>	<u>370,771</u>	<u>(88,950)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(208,844)</u>	<u>(185,959)</u>	<u>(265,530)</u>	<u>(79,571)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	-	-	66,675	66,675
Transfers in	-	245,000	245,000	-
Transfers out	-	-	(6,245)	(6,245)
Total other financing sources (uses)	<u>-</u>	<u>245,000</u>	<u>305,430</u>	<u>60,430</u>
<b>NET CHANGE IN FUND BALANCES</b>	(208,844)	59,041	39,900	(19,141)
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>181,052</u>	<u>181,052</u>	<u>181,052</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ (27,792)</u>	<u>\$ 240,093</u>	<u>\$ 220,952</u>	<u>\$ (19,141)</u>

## **Pantego Economic Development Corporation Funds**

***P.E.D.C. Sales Tax Revenue Fund*** – This fund is used to account for .50% sales tax.

***P.E.D.C. Construction Fund*** – This fund is used to account for construction economic development activities financed with debt and residual sales tax revenue.

***P.E.D.C. Debt Service Fund*** – This fund is used to account for accumulation of sales tax revenue to pay principal and interest due on P.E.D.C. debt.

**TOWN OF PANTEGO, TEXAS**  
**Pantego Economic Development Corporation**  
**Combining Balance Sheet**  
**September 30, 2013**

	<u>P.E.D.C.</u> <u>Sales Tax</u> <u>Revenue</u>	<u>P.E.D.C.</u> <u>Debt</u> <u>Service</u>	<u>P.E.D.C.</u> <u>Construction</u>	<u>Total</u> <u>P.E.D.C.</u> <u>Funds</u>
<b>Assets:</b>				
Cash and investments	\$ -	\$ 12,262	\$ 306,987	\$ 319,249
Receivables (Net of allowances for uncollectibles)				
Other taxes	93,871	-	-	93,871
Notes receivable	<u>-</u>	<u>-</u>	<u>37,874</u>	<u>37,874</u>
 Total assets	 <u>\$ 93,871</u>	 <u>\$ 12,262</u>	 <u>\$ 344,861</u>	 <u>\$ 450,994</u>
<b>Liabilities and fund balance:</b>				
Liabilities:				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,051</u>	<u>\$ 25,051</u>
 Total liabilities	 <u>-</u>	 <u>-</u>	 <u>25,051</u>	 <u>25,051</u>
 Fund Balance:				
Restricted	<u>93,871</u>	<u>12,262</u>	<u>319,810</u>	<u>425,943</u>
 Total fund balances	 <u>93,871</u>	 <u>12,262</u>	 <u>319,810</u>	 <u>425,943</u>
 Total liabilities and fund balances	 <u>\$ 93,871</u>	 <u>\$ 12,262</u>	 <u>\$ 344,861</u>	 <u>\$ 450,994</u>
 Fund Balances				 \$ 425,943
 Long term liabilities, including \$1,425,000 bonds and tax notes payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements.				 (1,425,000)
 Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.				 (8,977)
 Capital assets used in governmental activities are not financial resources and therefore are reported in the governmental funds.				 101,865
 Net Assets of Governmental Activities				 <u>\$ (906,169)</u>

**TOWN OF PANTEGO, TEXAS**  
**Pantego Economic Development Corporation**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended September 30, 2013**

	P.E.D.C. Sales Tax Revenue	P.E.D.C. Debt Service	P.E.D.C. Construction	Total P.E.D.C. Funds
Revenues:				
Sales taxes	\$ 543,344	\$ -	\$ -	\$ 543,344
Investment earnings	-	-	492	492
Miscellaneous	-	-	1,032	1,032
	<u>543,344</u>	<u>-</u>	<u>1,524</u>	<u>544,868</u>
Total revenue				
Expenditures:				
Current:				
General and administrative	-	-	113,294	113,294
Economic development grants	-	-	42,500	42,500
Other	-	-	95,979	95,979
Capital outlay	-	-	101,865	101,865
Debt service				
Principal	-	110,000	-	110,000
Interest and fiscal agent charges	-	73,985	-	73,985
	<u>-</u>	<u>183,985</u>	<u>353,638</u>	<u>537,623</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>543,344</u>	<u>(183,985)</u>	<u>(352,114)</u>	<u>7,245</u>
Other financing sources (uses):				
Transfers in	-	182,905	341,531	524,436
Transfers out	<u>(524,436)</u>	<u>-</u>	<u>-</u>	<u>(524,436)</u>
Total other financing sources (uses):	<u>(524,436)</u>	<u>182,905</u>	<u>341,531</u>	<u>-</u>
Net change in fund balances	18,908	(1,080)	(10,583)	7,245
Fund Balance October 1, 2012	<u>74,963</u>	<u>13,342</u>	<u>330,393</u>	<u>418,698</u>
Fund Balance September 30, 2013	<u>\$ 93,871</u>	<u>\$ 12,262</u>	<u>\$ 319,810</u>	<u>\$ 425,943</u>
Net Change in Fund Balance				\$ 7,245

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but are increases in capital assets and reductions in long-term debt in the government-wide financial statements.

211,865

Current year interest payable of the governmental funds are not due and payable in the current period. Changes in the balance are reported as expenses in the governmental activities of the Statement of Activities.

693

Change in net Assets of Governmental Activities

62

\$ 219,803

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**P.E.D.C. Sales Tax Revenue**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 435,000	\$ 435,000	\$ 543,344	\$ 108,344
Total revenues	<u>435,000</u>	<u>435,000</u>	<u>543,344</u>	<u>108,344</u>
<b>EXPENDITURES</b>	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>435,000</u>	<u>435,000</u>	<u>543,344</u>	<u>108,344</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(435,000)	(435,000)	(524,436)	(89,436)
Total other financing sources (uses):	<u>(435,000)</u>	<u>(435,000)</u>	<u>(524,436)</u>	<u>(89,436)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	18,908	18,908
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>74,963</u>	<u>74,963</u>	<u>74,963</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u><u>\$ 74,963</u></u>	<u><u>\$ 74,963</u></u>	<u><u>\$ 93,871</u></u>	<u><u>\$ 18,908</u></u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**P.E.D.C. - Debt Service Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Debt service				
Principal	110,000	110,000	110,000	-
Interest and fiscal agent charges	74,000	74,000	73,985	15
Total debt service	<u>184,000</u>	<u>184,000</u>	<u>183,985</u>	<u>15</u>
Total expenditures	<u>184,000</u>	<u>184,000</u>	<u>183,985</u>	<u>15</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(184,000)</u>	<u>(184,000)</u>	<u>(183,985)</u>	<u>15</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>185,000</u>	<u>185,000</u>	<u>182,905</u>	<u>(2,095)</u>
Total other financing sources (uses)	<u>185,000</u>	<u>185,000</u>	<u>182,905</u>	<u>(2,095)</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,000	1,000	(1,080)	(2,080)
<b>FUND BALANCE OCTOBER 1, 2012</b>	<u>13,342</u>	<u>13,342</u>	<u>13,342</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>	<u>\$ 14,342</u>	<u>\$ 14,342</u>	<u>\$ 12,262</u>	<u>\$ (2,080)</u>

**TOWN OF PANTEGO, TEXAS**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**P.E.D.C Construction Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 850	\$ 850	\$ 492	\$ (358)
Other	2,988	2,988	1,032	(1,956)
Total revenues	<u>3,838</u>	<u>3,838</u>	<u>1,524</u>	<u>(2,314)</u>
<b>EXPENDITURES</b>				
Current				
General and administrative	115,050	115,050	113,294	1,756
Economic development grants	48,000	48,000	42,500	5,500
Other	104,750	104,750	95,979	8,771
Capital outlay	<u>185,000</u>	<u>185,000</u>	<u>101,865</u>	<u>83,135</u>
Total expenditures	<u>452,800</u>	<u>452,800</u>	<u>353,638</u>	<u>99,162</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(448,962)</u>	<u>(448,962)</u>	<u>(352,114)</u>	<u>96,848</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>250,000</u>	<u>250,000</u>	<u>341,531</u>	<u>91,531</u>
Total other financing sources (uses)	<u>250,000</u>	<u>250,000</u>	<u>341,531</u>	<u>91,531</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	(198,962)	(198,962)	(10,583)	188,379
<b>FUND BALANCE OCTOBER 1, 2012</b>				
	<u>330,393</u>	<u>330,393</u>	<u>330,393</u>	<u>-</u>
<b>FUND BALANCE SEPTEMBER 30, 2013</b>				
	<u>\$ 131,431</u>	<u>\$ 131,431</u>	<u>\$ 319,810</u>	<u>\$ 188,379</u>

**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

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**GMS**

CERTIFIED PUBLIC  
ACCOUNTANTS

GEORGE | MORGAN | SNEED

**INDEPENDENT AUDITOR'S 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 Town of Pantego  
Town of Pantego, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Pantego, Texas (the "Town") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 12, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's 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 a 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.

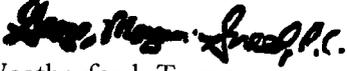
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 the Town's financial statements are free of 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 are required to be reported under *Government Auditing Standards*.

## **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.

  
Weatherford, Texas  
February 12, 2014