

CITY OF IOWA COLONY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2012

CITY OF IOWA COLONY, TEXAS
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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and
Members of City Council of
City of Iowa Colony, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate discretely presented component units of City of Iowa Colony, Texas (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregately presented discretely presented component units of the City as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 29 through 30 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.

A handwritten signature in black ink that reads "Whitley Penn LLP".

Houston, Texas
January 28, 2013

CITY OF IOWA COLONY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Iowa Colony, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Iowa Colony for the fiscal year ended September 30, 2012.

Overview of the Financial Statements

This annual report consists of two parts - management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The governmental activities of the City are principally supported by taxes and intergovernmental revenues include general government, public safety and public works.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Iowa Colony, uses one fund, the General Fund to ensure and demonstrate compliance with finance-related legal requirements.

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

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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

The City maintains one individual governmental funds. 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, which is considered to be a major fund.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 23 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 City of Iowa Colony's general fund budgetary comparisons. Required supplementary information can be found on pages 27 and 28 of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2.7 million. Of this amount, \$2.0 million was invested in capital assets (net of related debt), approximately \$0.7 million was unrestricted and the balance was restricted for a combination of public safety and economic development activities.

Below is a condensed schedule of Net Position as of September 30, 2012 and 2011:

City of Iowa Colony, Texas
Net Position (in thousands)
September 30, 2012 and 2011

	Governmental Activities	
	2012	2011
Assets		
Current assets	\$ 696	\$ 726
Capital assets	2,033	290
Total Assets	2,729	1,016
Liabilities		
Current liabilities	11	9
Total Liabilities	11	9
Net Position:		
Invested in capital assets	2,033	290
Restricted		8
Unrestricted	686	709
Total Net Position	\$ 2,718	\$ 1,007

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The following table summarizes the changes in net position for the City for the years ended September 30, 2012 and 2011:

City of Iowa Colony, Texas
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2012 and 2011

	Governmental Activities	
	2012	2011
Revenues		
Program Revenues:		
Charges for services	\$ 239	\$ 203
Operating grants	193	73
Capital grants	1,555	
General revenues:		
Franchise taxes	38	36
Sales taxes	82	164
Other	6	4
Total Revenues	2,113	480
Expenses:		
General government	223	126
Public safety	55	11
Public works	125	130
Economic development		62
Total Expenses	403	329
Change in net assets	1,711	151
Beginning Net Assets	1,007	856
Ending Net Assets	\$ 2,718	\$ 1,007

Governmental activities. The government's net position in regards to governmental activities increased by \$1.7 million during the current fiscal year. The increase is due mainly to a contribution of park land by a developer and increased development activity resulting in an increase in licenses and permits being issued and performed.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

City of Iowa Colony, Texas

Expenses, Program Revenues, and Net Cost of

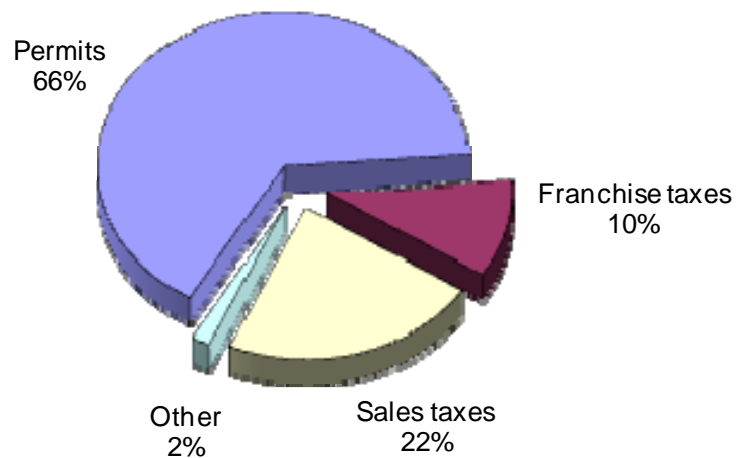
Services - Governmental Activities (in thousands)

For the Fiscal Years Ended September 30, 2012 and 2011

	Expenses		Program Revenues		Net (Cost) of Services	
	2012	2011	2012	2011	2012	2011
Program:						
General government	\$ 223	\$ 126	\$ -	\$ 23	\$ (223)	\$ (103)
Public safety	55	11	6		(49)	(11)
Public works	125	130	368	203	243	73
Economic development		62	59	50	59	(12)
	<u>\$ 403</u>	<u>\$ 329</u>	<u>\$ 433</u>	<u>\$ 276</u>	<u>\$ 30</u>	<u>\$ (53)</u>

As indicated above, governmental program expenses were supported by program revenues including permits and developer contributions. The balance of the program expenses were supported by general revenues.

Revenue sources for governmental activities were distributed as follows:



The graph above excludes the land donation of \$1.6 million made during the 2012 fiscal year.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's general fund reported an ending fund balance of approximately \$685,000 . Although this balance represents an decrease of (\$31,000)from the prior year. The City continues to maintain a fund balance in excess of one year of General Fund expenditures.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounted to \$2,033,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. As noted earlier, capital assets increased slightly during the year, primarily due to the contribution of land and the purchase of capital assets of approximately \$217,000 (net of depreciation expenses).

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

General Fund Budgetary Highlights

During the 2012 fiscal year, the City made no changes to the originally adopted City budget of \$428,000. Actual revenues exceeded estimated revenues by \$131,386 and total expenditures exceeded appropriations by \$162,460 resulting in an ending fund balance of \$685,374 which was \$31,074 lower than expected. The primary increases in revenues came from permit revenues commensurate with the growth and development in the area and a settlement for road damages. Expenditure overages were primarily a result of expenditures related to the City's "retainer account" activities (economic development) which reflect expenditures related to the retainers or revenues received from developers which were not incorporated in the official budget but were approved by council as a normal course of their monthly activity.

Economic Factors and Next Year's Budgets and Rates

On September 17th 2012, City council passed an operating budget for fiscal year 2013 as follows:

City of Iowa Colony, Texas
Budget Totals (in thousands)
September 30, 2013 and 2012

	Fiscal Year		Increase (Decrease)	
	2013	2012	Percent	Dollar
General Fund:				
Revenues	\$ 440,300	\$ 428,000	3%	\$ 12,300
Expenditures	440,300	428,000	3%	\$ 12,300

Basic Financial Statements

CITY OF IOWA COLONY, TEXAS
STATEMENT OF NET POSITION
September 30, 2012

	Primary Government Governmental Activities	Discretely Presented Component Units
Assets		
Cash and temporary investments	\$ 687,187	\$ 157,448
Receivables, net of allowance for uncollectibles	8,714	4,418
Capital assets not being depreciated	1,683,273	
Capital assets net of accumulated depreciation	349,781	
Total Assets	<u>2,728,955</u>	<u>161,866</u>
Liabilities		
Accounts payable and accrued expenses	10,527	3,068
Total Liabilities	<u>10,527</u>	<u>3,068</u>
Net Position		
Invested in capital assets, net of related debt	2,033,054	
Restricted for:		
Economic development		29,728
Public safety - crime control		129,070
Unrestricted	685,374	
Total Net Position	<u>\$ 2,718,428</u>	<u>\$ 158,798</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Discretely Presented Component Units
Primary Government						
Governmental Activities						
General government	\$ 223,068	\$	\$ 58	\$	\$ (223,010)	
Public safety	55,424	5,810			(49,614)	
Public works	124,514	233,552	134,084		243,122	
Parks and recreation				1,555,315	1,555,315	
Economic development			59,210		59,210	
Total Governmental Activities	403,006	239,362	193,352	1,555,315	1,585,023	
Total Primary Government	\$ 403,006	\$ 239,362	\$ 193,352	\$ 1,555,315	\$ 1,585,023	
Component Unit						
Iowa Colony Development Authority	\$ 9,313	\$	\$ 10,000	\$		\$ 687
Crime Control District	22,655					(22,655)
Total component units	\$ 31,968	\$	\$ 10,000	\$		(21,968)
General revenues:						
Taxes:						
Franchise taxes					38,420	
Sales taxes					81,868	41,115
Unrestricted investment earnings					3,700	
Total general revenues					126,672	41,115
Change in net assets					1,711,695	19,147
Net assets - beginning					1,006,733	139,651
Net assets - ending					\$ 2,718,428	\$ 158,798

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUND

September 30, 2012

	<u>General Fund</u>
Assets	
Current assets:	
Cash and temporary investments	\$ 687,187
Accounts receivable, less allowance for doubtful accounts	<u>8,714</u>
Total Assets	<u><u>\$ 695,901</u></u>
 Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 8,816
Other liabilities	<u>1,711</u>
Total Liabilities	<u>10,527</u>
 Fund Balance:	
Unassigned	<u>685,374</u>
Total Fund Balances	<u>685,374</u>
 Total Liabilities and Fund Balances	<u><u>\$ 695,901</u></u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2012

Total fund balance, governmental funds \$ 685,374

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

Capital assets used in governmental activities are not current financial resources
and therefore are not reported in this fund financial statement, but are reported
in the governmental activities of the Statement of Net Position. 2,033,054

Net Position of Governmental Activities

\$ 2,718,428

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Year Ended September 30, 2012

	<u>General Fund</u>
Revenues	
Sales and use taxes	\$ 81,868
Franchise taxes	38,420
Licenses and permits	233,552
Fines and forfeitures	5,810
Earnings on investments	3,700
Other	196,036
Total Revenues	<u>559,386</u>
Expenditures	
Current:	
General government	215,691
Public safety	45,667
Public works	225,885
Economic development	
Capital outlay	103,217
Total Expenditures	<u>590,460</u>
Changes in Fund Balance	(31,074)
Fund Balances - Beginning of Year	<u>716,448</u>
Fund Balances - End of Year	<u><u>\$ 685,374</u></u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

***RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012***

Net change in fund balances - total governmental funds: \$ (31,074)

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

Park land contributions from a developer are not the receipt of current
assets and thus not reflected in the fund based financial statements. The
contribution is recognized as program revenue in the government-wide
financial statements. 1,560,211

Governmental funds report outlays for capital assets as expenditures because
such outlays use current financial resources. In contrast, the Statement of
Activities reports only a portion of the outlay as expense.

The outlay is allocated over the assets' estimated useful lives as depreciation
expense for the period. This is the amount capital outlay in the current
period exceeded depreciation.

Capital outlay	216,730
Depreciation	<u>(34,172)</u>

Change in net financial position of governmental activities	<u>\$ 1,711,695</u>
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See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
STATEMENT OF NET POSITION / BALANCE SHEET
COMPONENT UNITS
September 30, 2012

	Iowa Colony Development Authority	Crime Control District	Total Component Units
Assets			
Current assets:			
Cash and temporary investments	\$ 29,728	\$ 127,720	\$ 157,448
Accounts receivable, less allowance for doubtful accounts		4,418	4,418
Total Assets	<u>\$ 29,728</u>	<u>\$ 132,138</u>	<u>\$ 161,866</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 3,068	\$ 3,068
Fund Balance / Net Position:			
Restricted			
Crime prevention		\$ 129,070	\$ 129,070
Economic development	\$ 29,728		29,728
Total Fund Balances / Net Position	<u>29,728</u>	<u>129,070</u>	<u>158,798</u>
Total Liabilities and Fund Balances / Net Position	<u>\$ 29,728</u>	<u>\$ 132,138</u>	<u>\$ 161,866</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS**STATEMENT OF ACTIVITIES /
REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
COMPONENT UNITS***For the Year Ended September 30, 2012*

	Iowa Colony Development Authority	Crime Control District	Total Component Units
Revenues			
General Revenues			
Sales and use taxes	\$	\$ 41,115	\$ 41,115
Program Revenues			
Other	10,000		10,000
Total Revenues	<u>10,000</u>	<u>41,115</u>	<u>51,115</u>
Expenditures/Expenses			
Current:			
Public safety		22,655	22,655
Economic development	9,313		
Total Expenditures/Expenses	<u>9,313</u>	<u>22,655</u>	<u>22,655</u>
 Changes in Fund Balance / Net Position	 687	 18,460	 19,147
 Fund Balances / Net Position - Beginning of Year	 <u>29,041</u>	 <u>110,610</u>	 <u>139,651</u>
 Fund Balances / Net Position - End of Year	 <u>\$ 29,728</u>	 <u>\$ 129,070</u>	 <u>\$ 158,798</u>

See Notes to Financial Statements.

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CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The City of Iowa Colony, Texas (the “City”) is a political subdivision incorporated in 1972 through the State of Texas operating as a type B, general law city. In 2005, a resolution was passed to change to a type A, general law city. The City is governed by an elected Mayor and five-member Council.

The City provides the following services: general government, public safety, public works and economic development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Board of Aldermen (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a primary government as defined by GAAP.

The financial Statements also include the activity of the City of Iowa Colony Crime Control District which is a component unit of the City. This District levies a ½ cent sales tax for the purpose of public safety. The Board of Directors of the District as of year-end is essentially the same composition as City Council.

In March 2010, City Council formed the City of Iowa Colony Development Authority(ICDA) and the City of Iowa Colony Tax Increment Reinvestment Zone No. 2 (TIRZ 2) to facilitate development in connection with a residential neighborhood. As of September 30, all financial activity of ICDA and TIRZ 2 has been funded privately by the developer and is reflected as a discretely presented component unit under the ICDA caption.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all activities of the primary government. All activities of the City are classified as governmental activities, as they are supported primarily by taxes and non-exchange revenues.

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 segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Franchise tax and sales tax revenues are recognized, for external reporting purposes, when the underlying sales or transaction occurs. Sales tax revenues are collected by individual commercial enterprises and filed with the State of Texas. The State of Texas remits the City's and Crime Control District's portion of the sales tax on a monthly basis, two months after the sales are reported. Interest is recorded when earned. 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 if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. As a practical matter, there is no material difference in the recognition of revenues between the government-wide and governmental fund financial statements. Expenditures for governmental funds are recorded when the related liability is incurred.

The City reports the following major governmental fund:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund include local property taxes, sales and use taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, public safety, public works, and economic development.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided (primarily inspection and platting fees, (2) operating grants and contributions (primarily retainer or development fees from developers), and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Net Position of the City and its component units are reported under the following captions:

- Invested in capital assets - This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of Net Position consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted Net Position - This component of Net Position consists of Net Position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Receivables

All receivables are reported at their gross value. No provision has been made for an allowance for uncollectible amounts as management anticipates all to be collectible.

E. Capital assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings, improvements and roads	10 - 40 years
Machinery and equipment	5 - 7 years

F. Compensated absences

The City has no formal vacation or sick leave policy in place for its lone employee as of September 30, 2012. No amounts have been reported for accrued but unpaid compensated absences at the date of the report.

G. Fund Equity

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City has not adopted a minimum fund balance policy for the General Fund.

H. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS)

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

The City has not entered into a formal depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent. The City’s agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. At fiscal year-end, the bank balance of the City’s deposits was covered by federal depository insurance up to \$250,000, and the balance was covered by collateral pledged in the name of the City and held in a third-party depository.

The Council has adopted a written investment policy regarding the investment of City funds as required by the PFIA. Acceptable investments under this policy are limited to the instruments listed below:

- Fully insured or collateralized certificates of deposit from a bank in the State of Texas and under the terms of a written depository agreement with that bank;
- Obligations of the United States Government, its agencies and instrumentalities and government sponsoring enterprises;
- Texas Local Government Investment Pools as by the PFIA and have been authorized by the City Council.

The investments of the City are in compliance with the City’s investment policy as to form.

Local Government Investment Pool

As of September 30, 2011, the City’s investments included balances in the TexSTAR Public Funds Investment Pool. The investment pool investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

Texas Short Term Asset Reserve Program (“TexSTAR”) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities (“Participants”) to invest their public funds and funds under their control through the investment pools. J.P. Morgan Investment Management, Inc. (“JPMIM” or the “investment manager”) and First Southwest Asset Management, Inc. (“FSAM”) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the “Board”).

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS) (continued)

Local Government Investment Pool (continued)

The value of City portions in TexSTAR are the same as the value of the shares. Unlike money market mutual funds which are registered with the Securities and Exchange Commission, TexSTAR does not operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. The external pooled fund uses amortized cost rather than market value to report Net Position to compute share price, because such funds have daily liquidity. Although TexSTAR has weighted average maturities greater than one, the City considers the holdings in these funds to have a one-day weighted average maturity.

Deposit and Investment Amounts

The following schedule shows the City's recorded cash and investments at year-end:

	Primary Government	Weighted Average Maturity (days)
Cash and demand deposits	\$ 185,756	N/A
Certificate of deposit	399,397	326
Balances in public funds investment pools		
TexSTAR	102,034	47
Totals	<u>\$ 687,187</u>	

Investment Risks

Interest Rate Risk

In accordance with the City's investment policy, the maturity of investments (to include certificates of deposit) shall not exceed one year, or with the approval of City Council, two years. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio shall not exceed two years.

Concentration of Credit Risk

The City's investment policy does not restrict or specify levels of concentration or diversification within the City's portfolio. It does provide that *"The City shall diversify its investments in order to minimize the risk of loss resulting from a concentration of assets in a specific maturity, a specific issuer, or a specific type of investment."*

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - RECEIVABLES

Amounts recorded as receivables as of September 30, 2012, are as follows:

	General	Discretely Presented Component Unit
Receivables:		
Sales taxes - City	\$ 8,714	
Sales taxes - Crime Control District		4,418
Net total receivables	<u>\$ 8,714</u>	<u>\$ 4,418</u>

NOTE 5 - CAPITAL ASSETS

A summary of activity for capital assets for the year ended September 30, 2012, follows:

	Balance 9/30/2011	Additions	Balance 9/30/2012
Governmental activities:			
Capital assets, not being depreciated:			
Land and right of way	\$ 123,062	1,560,211	1,683,273
Total capital assets not being depreciated	<u>123,062</u>	<u>3,120,422</u>	<u>1,683,273</u>
Capital assets being depreciated:			
Buildings, improvements and roads	277,548	210,291	487,839
Machinery and equipment	71,624	6,439	78,063
Total capital assets being depreciated	<u>349,172</u>	<u>216,730</u>	<u>565,902</u>
Less accumulated depreciation for:			
Buildings, improvements and roads	(173,557)	(18,559)	(192,116)
Machinery and equipment	(8,392)	(15,613)	(24,005)
Total accumulated depreciation	<u>(181,949)</u>	<u>(34,172)</u>	<u>(216,121)</u>
Total capital assets being depreciated, net	<u>167,223</u>	<u>182,558</u>	<u>349,781</u>
Governmental activities capital assets, net	<u>\$ 290,285</u>	<u>\$ 3,302,980</u>	<u>\$ 2,033,054</u>

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

Governmental activities:	
General	\$ 18,712
Public safety	9,757
Public works	5,703
	<u>\$ 34,172</u>

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS *(continued)*

NOTE 6 - RISK MANAGEMENT

General Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage from the previous year.

Worker's Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

NOTE 7 - SUBSEQUENT EVENTS

Subsequent to year end, the City received notice from the State Comptroller's office stating that the City and the Crime Control District had received an overpayment of sales taxes in the amount of \$16,677. The City and the Crime Control District have agreed to repay the overpayment over a twenty-four (24) month period starting February 1, 2013. Of the \$16,677, \$5,559 is the responsibility of the Crime Control District, while the remaining portion is the responsibility of the City.

Required Supplementary Information

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CITY OF IOWA COLONY, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2012

	2012			2011
	Budgeted		Variance with	
	Original and		Final Budget	
	Final		Positive /	
	Amended	Actual	(Negative)	Actual
Revenues				
Sales and use taxes	\$ 150,000	\$ 81,868	\$ (68,132)	\$ 163,969
Franchise taxes	45,000	38,420	(6,580)	35,906
Licenses and permits	184,800	233,552	48,752	203,320
Earnings on investments	3,700	3,700		3,641
Other	41,000	196,036	155,036	73,472
Total Revenues	428,000	559,386	131,386	480,308
Expenditures				
Current:				
General government	152,000	215,691	(63,691)	144,934
Public safety	58,800	45,667	13,133	54,611
Public works	114,500	225,885	(111,385)	104,897
Economic development	40,000		40,000	62,453
Capital outlay	62,700	103,217	(40,517)	17,162
Total Expenditures	428,000	590,460	(162,460)	384,057
Changes in Fund Balance		(31,074)	(31,074)	96,251
Fund Balances - Beginning of Year	716,448	716,448		620,197
Fund Balances - End of Year	\$ 716,448	\$ 685,374	\$ (31,074)	\$ 716,448

CITY OF IOWA COLONY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION

Legal Compliance - Budgets

Typically, prior to September 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. The Council approves the budget plan prior to September 30. One or more public hearings are conducted to obtain taxpayer comments. City Council members may transfer unencumbered appropriated balances, or portion thereof, from one department to another. During the year, Council made no amendments to the original budget.

The City's expenditures exceeded appropriations by \$162,460 for the year ended September 30, 2012.