

CITY OF IOWA COLONY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate discretely presented component unit and nonmajor fund of City of Iowa Colony, Texas (the "City"), as of and for the year ended September 30, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate discretely presented component unit and nonmajor fund of the City as of September 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 28 and 29 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". The signature is written in a cursive, flowing style.

Houston, Texas
February 16, 2015

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, 2014.

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. adjudicated fines).

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

Additionally, the City reports the activities of its sole discretely presented component unit, the Iowa Colony Development Authority in the government-wide financial statements.

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 two funds, the General Fund and the Crime Control District Fund to ensure and demonstrate compliance with finance-related legal requirements. Prior to fiscal year 2014, the Crime Control District Fund was reported as a discretely presented component unit versus its current presentation as a blended component unit.

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

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.

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 two 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. The general fund, or main operating fund of the City is considered to be a major fund.

The basic governmental fund and individual component unit 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 16 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 25 and 26 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 \$3.0 million. Of this amount, \$2.1 million was invested in capital assets, \$777,347 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, 2014 and 2013:

City of Iowa Colony, Texas
Net Position (in thousands)
September 30, 2014 and 2013

	Governmental Activities	
	2014	2013*
Assets		
Current assets	\$ 1,129	\$ 859
Capital assets	2,121	2,171
Total Assets	3,250	3,030
Liabilities		
Current liabilities	272	30
Total Liabilities	272	30
Net Position:		
Net investment in capital assets	2,121	2,171
Restricted	80	76
Unrestricted	777	753
Total Net Position	\$ 2,978	\$ 3,000

*For fiscal year 2014, the City has chosen to present the Crime Control District as a blended component unit versus a discretely presented component unit as it has in the past. The condensed financial statements in the Management Discussion and Analysis have been restated to reflect this change for 2013.

During the 2014 fiscal year, the City received \$195,000 in the form of deposit for potential road damages from a drilling company. This amount is reported as "road damage deposit" on the face of the statement of net position and governmental balance sheet.

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, 2014 and 2013:

City of Iowa Colony, Texas
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2014 and 2013

	Governmental Activities	
Revenues	2014	2013*
Program Revenues:		
Charges for services		
Public Safety	\$ 123	\$ 57
Public Works	590	264
Operating grants	14	34
Capital grants		84
General revenues:		
Property taxes		
Franchise taxes	37	35
Sales taxes	68	79
Other	9	106
Total Revenues	841	659
Expenses:		
General government	212	180
Public safety	247	188
Public works	404	139
Total Expenses	863	507
Change in net position	(22)	152
Beginning Net Position	3,000	2,848
Ending Net Position	\$ 2,978	\$ 3,000

Governmental activities. The government's net position decreased by (\$22,354) during the current fiscal year. The minimal is due mainly to increased development activity resulting in an increase in engineering expenses offset by increases in licenses and permits being issued along with a doubling of fines and forfeiture revenues for the year.

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, 2014 and 2013

	Expenses		Program Revenues		Net (Cost) of Services	
	2014	2013	2014	2013	2014	2013
Program:						
General government	\$ 212	\$ 180	\$ 14	\$ 34	\$ (198)	\$ (146)
Public safety	247	188	123	106	(124)	(82)
Public works	404	139	590	299	186	160
	<u>\$ 863</u>	<u>\$ 507</u>	<u>\$ 727</u>	<u>\$ 439</u>	<u>\$ (136)</u>	<u>\$ (68)</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:

City of Iowa Colony, Texas

Revenues by Source- Governmental

Activities (in thousands)

For the Fiscal Year Ended September 30, 2014

	Dollars	Percentage
Permits and retainer fees	\$ 590	70%
Fines and forfeitures	123	15%
Franchise taxes	37	4%
Sales taxes	68	8%
Other	23	3%
	<u>\$ 841</u>	100%

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.

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

As of the end of the current fiscal year, the City's general fund reported an ending fund balance of \$794,984 . Although this balance represents an increase of \$57,185 from the prior year, the City's ending unassigned fund balance of \$751,393 grew by \$34,783 during the year.

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, 2014, amounted to \$2,120,701 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. Additions in the current year primarily consisted of roads, bridges, and police equipment.

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 2014 fiscal year, the City made no changes to the originally adopted City budget that budgeted for \$516,000 in revenues and \$665,845 in expenditures. Actual revenues exceeded estimated revenues by \$292,021 and total expenditures exceeded appropriations by \$84,991 resulting in an ending fund balance of \$794,984 which was \$207,030 higher than expected. The primary increases in revenues came from a higher than predicted license and permit revenues along with higher than projected fines and forfeitures. These increases in revenues offset a decrease in sales tax revenues caused by discontinued manufacturing operations. Expenditure overages were primarily related to inspection and engineering costs associated with the rapid development of the City.

Economic Factors and Next Year's Budgets and Rates

The city has adopted a General Fund operating budget for the 2015 fiscal year as follows:

City of Iowa Colony, Texas

Budget Totals

September 30, 2015

	<u>Fiscal Year</u>
	<u>2015</u>
General Fund:	
Revenues	\$ 1,251,038
Expenditures	1,222,711

The 2015 Budget includes for the first time a property tax of \$.499561 per \$1000 of value on real and personal property within the City limits which will be used for general operations of the City.

BASIC FINANCIAL STATEMENTS

CITY OF IOWA COLONY, TEXAS**STATEMENT OF NET POSITION***September 30, 2014*

	Primary Government Governmental Activities	Discretely Presented Component Unit
Assets		
Cash and temporary investments	\$ 1,094,115	\$ 42,907
Receivables, net of allowance for uncollectibles	35,514	
Capital assets not being depreciated	1,683,273	
Capital assets net of accumulated depreciation	437,428	
Total Assets	<u>3,250,330</u>	<u>42,907</u>
Liabilities		
Accounts payable and accrued expenses	77,292	9,186
Road damage deposit	195,000	
Total Liabilities	<u>272,292</u>	<u>9,186</u>
Net Position		
Investment in capital assets	2,120,701	
Restricted for:		
Economic/community development	43,591	33,721
Public safety - crime control	36,399	
Unrestricted	777,347	
Total Net Position	<u>\$ 2,978,038</u>	<u>\$ 33,721</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	Discretely Presented Component Unit
Governmental Activities					
General government	\$ 211,642	\$	\$ 13,710	\$ (197,932)	
Public safety	246,724	122,741		(123,983)	
Public works	403,814	590,137		186,323	
Total Governmental Activities	<u>862,180</u>	<u>712,878</u>	<u>13,710</u>	<u>(135,592)</u>	
Total Primary Government	<u>\$ 862,180</u>	<u>\$ 712,878</u>	<u>\$ 13,710</u>	<u>\$ (135,592)</u>	
Component Unit					
Iowa Colony					
Development Authority	<u>\$ 76,484</u>	<u>\$</u>	<u>\$ 85,000</u>		\$ 8,516
General revenues:					
Taxes:					
Franchise taxes				36,878	
Sales taxes				67,798	
Unrestricted investment earnings				2,177	
Miscellaneous				6,385	
Total general revenues				<u>113,238</u>	
Change in net position				(22,354)	8,516
Net Position - beginning				3,000,392	25,205
Net Position - ending				<u>\$ 2,978,038</u>	<u>\$ 33,721</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS**BALANCE SHEET****GOVERNMENTAL FUNDS***September 30, 2014*

	General Fund	Nonmajor Fund Crime Control District	Total Governmental Funds
Assets			
Current assets:			
Cash and temporary investments	\$ 1,055,099	\$ 39,016	\$ 1,094,115
Accounts receivable	32,006	3,508	35,514
Total Assets	\$ 1,087,105	\$ 42,524	\$ 1,129,629
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 67,814	\$ 6,125	\$ 73,939
Other liabilities	3,353		3,353
Road damage deposits	195,000		195,000
Total Liabilities	266,167	6,125	272,292
Deferred Inflows of Resources			
Unavailable fine revenues	25,954		25,954
Total Deferred Inflows of Resources	25,954		25,954
Fund Balance:			
Restricted			
Crime prevention		36,399	36,399
Economic/community development	43,591		43,591
Unassigned	751,393		751,393
Total Fund Balance	794,984	36,399	831,383
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,087,105	\$ 42,524	\$ 1,129,629

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, 2014

Total fund balance, governmental funds	\$ 831,383
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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.	2,120,701
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Uncollected adjudicated fines are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	25,954
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Net Position of Governmental Activities	\$ 2,978,038
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See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	General Fund	Nonmajor Fund Crime Control District	Total Governmental Funds
Revenues			
Sales and use taxes	\$ 46,479	\$ 21,319	\$ 67,798
Franchise taxes	36,878		36,878
Licenses and permits	469,642		469,642
Fines and forfeitures	112,255		112,255
Earnings on investments	2,177		2,177
Other	140,590		140,590
Total Revenues	<u>808,021</u>	<u>21,319</u>	<u>829,340</u>
Expenditures			
Current:			
General government	205,809		205,809
Public safety	160,209	61,178	221,387
Public works	384,818		384,818
Capital outlay			
Total Expenditures	<u>750,836</u>	<u>61,178</u>	<u>812,014</u>
Changes in Fund Balance	57,185	(39,859)	17,326
Fund Balances - Beginning of Year	<u>737,799</u>	<u>76,258</u>	<u>814,057</u>
Fund Balances - End of Year	<u><u>\$ 794,984</u></u>	<u><u>\$ 36,399</u></u>	<u><u>\$ 831,383</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, 2014

Net change in fund balances - total governmental funds: \$ 17,326

Capital contributions from the Crime Control District are not the receipt of current assets and thus not reflected in the fund based financial statements. The contribution is recognized as contributed capital in the government-wide financial statements.

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	-
Depreciation	(50,166)

Fines and forfeiture revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

10,486

Change in net financial position of governmental activities	<u><u>\$ (22,354)</u></u>
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See Notes to Financial Statements.

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 U.S. 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 blended 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 made up of two members of the City Council and three citizens. Prior to the 2014 fiscal year, the District was presented as a discretely presented component unit. Effective October 1, 2014 the City ceased levying sales tax for this purpose. The remaining district funds will be used as designed and the District will cease to exist.

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:

- Investment 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 "investment in capital assets".

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

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 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, 2014. No amounts have been reported for accrued but unpaid compensated absences at the date of the report.

G. Fund Equity

As of September 30, 2014, 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2014, 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.

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

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

Local Government Investment Pool (continued)

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”).

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:

	<u>Primary Government</u>	<u>Weighted Average Maturity (days)</u>
Cash and demand deposits	\$ 587,867	N/A
Certificate of deposit	404,075	175
Balances in public funds investment pools		
TexSTAR	<u>102,173</u>	50
Totals	<u><u>\$ 1,094,115</u></u>	150

At September 30, 2014, all of the cash and temporary investments of Iowa Colony Development Authority consisted of balances in demand deposit accounts.

Bank balances for demand deposits for the primary government and the discretely presented component unit at year end totaled \$647,675 of which \$250,000 was covered by FDIC insurance leaving the balance unsecured. All of the certificates of deposits were covered by appropriate FDIC insurance.

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

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

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."*

NOTE 4 - RECEIVABLES

Amounts recorded as receivables as of September 30, 2014, are as follows:

	<u>General</u>
Receivables:	
Sales taxes	\$ 6,052
Adjudicated Fines	<u>82,972</u>
Gross receivables	89,024
Less: allowance for uncollectibles	<u>(57,018)</u>
Net total receivables	<u><u>\$ 32,006</u></u>

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

NOTE 5 - CAPITAL ASSETS

A summary of activity for capital assets for the year ended September 30, 2014, follows:

	<u>Balance 9/30/2013</u>	<u>Additions</u>	<u>Balance 9/30/2014</u>
Governmental activities:			
Capital assets, not being depreciated:			
Land and right of way	\$ 1,683,273		1,683,273
Total capital assets not being depreciated	<u>1,683,273</u>		<u>1,683,273</u>
Capital assets being depreciated:			
Buildings, improvements and roads	613,227		613,227
Machinery and equipment	126,685		126,685
Total capital assets being depreciated	<u>739,912</u>		<u>739,912</u>
Less accumulated depreciation for:			
Buildings, improvements and roads	(211,636)	(24,829)	(236,465)
Machinery and equipment	(40,682)	(25,337)	(66,019)
Total accumulated depreciation	<u>(252,318)</u>	<u>(50,166)</u>	<u>(302,484)</u>
Total capital assets being depreciated, net	<u>487,594</u>	<u>(50,166)</u>	<u>437,428</u>
Governmental activities capital assets, net	<u>\$ 2,170,867</u>	<u>\$ (50,166)</u>	<u>\$ 2,120,701</u>

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

General	\$ 5,833
Public safety	25,337
Public works	18,996
	<u>\$ 50,166</u>

NOTE 6 – ROAD DAMAGE DEPOSIT

As of September 30, 2014, the City had received a deposit to cover potential road damage in accordance with the City's pipeline ordinance of \$195,000. The City has the right to apply the deposit to any cost, damage or loss of roads incurred by the City as a result of pipeline installation within the City. upon completion of the pipeline installation, the depositor is eligible for a refund of any amounts remaining after all obligations are satisfied.

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

NOTE 7 - 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 8 – SUBSEQUENT EVENTS

Property Taxes

The City has levied an ad valorem property tax at a rate of \$.499561 per \$100 of valuation for operations for the 2015 fiscal year.

Texas Municipal Retirement System

Effective October 20, 2014, City council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

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REQUIRED SUPPLEMENTARY INFORMATION

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, 2014

	2014			2013
	Budgeted		Variance with	
	Original and		Final Budget	
	Final		Positive /	
	Amended	Actual	(Negative)	Actual
Revenues				
Sales and use taxes	\$ 80,000	\$ 46,479	\$ (33,521)	\$ 53,760
Franchise taxes	50,000	36,878	(13,122)	35,372
Licenses and permits	269,500	469,642	200,142	264,434
Fines and forfeitures	58,000	112,255	54,255	41,571
Earnings on investments	3,500	2,177	(1,323)	3,772
Other	55,000	140,590	85,590	170,639
Total Revenues	<u>516,000</u>	<u>808,021</u>	<u>292,021</u>	<u>569,548</u>
Expenditures				
Current:				
General government	186,500	205,809	(19,309)	174,004
Public safety	144,345	160,209	(15,864)	92,824
Public works	300,000	384,818	(84,818)	127,600
Economic development				
Capital outlay	35,000		35,000	122,694
Total Expenditures	<u>665,845</u>	<u>750,836</u>	<u>(84,991)</u>	<u>517,122</u>
Changes in Fund Balance	(149,845)	57,185	207,030	52,426
Fund Balances - Beginning of Year	<u>737,799</u>	<u>737,799</u>		<u>685,373</u>
Fund Balances - End of Year	<u>\$ 587,954</u>	<u>\$ 794,984</u>	<u>\$ 207,030</u>	<u>\$ 737,799</u>

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 \$26,865 for the year ended September 30, 2014.