

TOWN OF LAGUNA VISTA, TEXAS

ANNUAL FINANCIAL REPORT

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

TOWN OF LAGUNA VISTA, TEXAS

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Town Council
Town of Laguna Vista, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Laguna Vista, Texas 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.

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 of Laguna Vista, Texas' basic financial statements. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Patullo, Born & Hill, C.P.

Brownsville, Texas
January 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Laguna Vista's ("Town") Financial Report presents a narrative overview and analysis of the Town's financial performance for the ended September 30, 2013. Please read this management's discussion and analysis in conjunction with the accompanying financial statements and notes which follow in order to obtain a thorough understanding of the Town's financial condition at September 30, 2013.

FINANCIAL HIGHLIGHTS

- The Town's net position is \$4,399,860, an increase of \$117,179.
- Unrestricted net position is \$999,897 at September 30, 2013, an increase of \$154,236.
- The Town's real property tax rate is 0.3391 per \$100 valuation.
- The total fund balance of the General Fund at September 30, 2013 was \$932,811 in addition \$63,910 is restricted for tourism (Hotel occupancy).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise 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 focus of the government-wide financial statements is on the overall financial position and activities of the Town of Laguna Vista, Texas. The Town's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets held and liabilities owed by the Town. The Town reports all of its assets when it acquires ownership over the assets and reports all its liabilities when they are incurred. For example, the Town reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Town. On the other hand, the Town reports liabilities, such as litigation claims, even though these liabilities might not be paid until several years into the future.

The difference between the Town's total assets and total liabilities is labeled as net position and this difference is similar to the total owners' equity presented by a commercial enterprise. Although the purpose of the Town is not to accumulate net position, in general, as this amount increases it indicates that the financial position of the Town is improving over time.

The purpose of the statement of activities is to present revenues and expenses of the Town. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the Town. Thus, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is net income, the Town reports an amount described as change in net position, essentially the same thing.

The focus of the statement of activities is on the net cost of various activities provided by the Town. The statement begins with a column that identifies the cost of each of the Town's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific program/activities computes the net cost or benefits of the program/activities, which identifies the extent to which each function of the Town draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

The Town's government-wide financial statements are divided into governmental activities and business-type activities. Governmental activities are generally financed through taxes intergovernmental revenues and other non-exchange revenues, while business-type activities are financed to some degree by charging external parties for the good or services they acquire from the Town. Governmental activities include programs/activities such as general government, public safety, streets, and health and welfare.

The government-wide financial statements include not only the Town of Laguna Vista itself (known as the *primary government*), but also for which the Community Development Corporation is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The Community Development Corporation, although also legally separate, functions for all practical purposes as a department of the Town, and therefore has been included as an integral part of the primary government.

The Town's government-wide financial statements are presented on pages 10 and 11.

FUND FINANCIAL STATEMENTS

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the Town rather than the Town as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations. All of the funds of the Town are governmental funds.

GOVERNMENTAL FUNDS

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures, and changes in fund balance and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and buildings. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled as the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid in cash, respectively, during the current period or very shortly after the end of the year.

For the most part, the balances and activities accounted for in the governmental funds are also reported in the governmental activities columns of the government-wide financial statements; however, because different accounting bases are used to prepare fund financial statements and government-wide financial statements, there are often significant differences between the totals presented in these financial statements. For this reason, there is an analysis after the balance sheet that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis next to the statement of revenues, expenditures, and changes in fund balances that reconciles the total change in fund balance for all governmental funds to the change in net position as reported in the governmental activities column in statement of activities.

The Town's basic governmental fund financial statements are presented on pages 12 thru 15.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net Position:

For 2013, the Town's net position of governmental activities increased by \$117,179. Our analysis below focuses on the net position and changes in net position of the Town's governmental activities.

Summary of Statements of Net Position September 30, 2013 and 2012

	Governmental Activities	
	2013	2012
Assets:		
Current and other assets	\$ 1,272,716	\$ 1,498,329
Capital assets (net)	4,610,078	4,248,137
Total Assets	5,882,794	5,746,466
Liabilities:		
Current and other liabilities	147,934	73,785
Noncurrent liabilities	1,335,000	1,390,000
Total Liabilities	1,482,934	1,463,785
Net Position:		
Invested in capital assets, net of related debt	3,220,078	2,803,137
Restricted for:		
Hotel occupancy	63,910	60,843
Debt service	41,970	22,838
Capital projects	74,005	550,202
Unrestricted	999,897	845,661
Total Net Position	\$ 4,399,860	\$ 4,282,681

Infrastructure Assets:

At September 30, 2013, the Town's total assets were \$5,882,794. Of this amount, \$4,610,078 is accounted for as capital assets, which includes the entire infrastructure of the Town. Historically, infrastructure (road, sewers, etc.) have not been reported or depreciated in governmental financial statements.

The following presents the Town's change in net position for the fiscal year ended September 30, 2013.

**Summary of Statements of Activities
For The Years Ended September 30, 2013 and 2012**

	Governmental Activities	
	2013	2012
Revenues:		
Program Revenues:		
Charges for services	\$ 233,523	\$ 217,863
Operating grants and contributions	361,967	478,725
General Revenues:		
Property taxes	934,801	983,633
Sales taxes	106,925	105,301
Franchise taxes	136,002	144,099
Occupancy taxes	13,119	19,318
Investment earnings	4,059	4,713
Miscellaneous income	6,938	70,179
Total revenues	1,797,334	2,023,831
Expenses:		
General government	569,203	551,461
Public safety	538,515	522,436
Public works	328,539	289,416
Culture and recreation	120,748	194,489
Interest and charges on long-term debt	58,024	77,903
Total expenses	1,615,029	1,635,705
Change in net position	182,305	388,126
Net Position:		
Beginning of the year	4,282,681	3,890,023
Prior period adjustment	(65,126)	4,532
Beginning balance - restated	4,217,555	3,894,555
End of the year	\$ 4,399,860	\$ 4,282,681

GOVERNMENTAL ACTIVITIES

Revenue Sources:

Total government-wide revenues of \$1,797,334 were derived primarily from property taxes, grant contributions and charges for services, representing 52%, 20% and 12%, respectively, of the total. Other revenues such as sales taxes, franchise taxes and interest made up the remaining 16%.

Expenses:

Total expenses for the general fund in 2013 were \$1,208,761. The largest expense was salary expense at 52% and other expenses making up the remaining 48%.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed this year, its governmental fund reported a fund balance of \$932,811, an increase of \$161,282. Of this balance, 100% represents unreserved/undesignated fund balance, meaning it is available to meet the Town's current and future needs.

General Fund Budgetary Highlights

Differences between final budget and actual revenues and expenditures can be briefly summarized as follows:

- The Town's budgeted revenues exceeded actual amounts by \$124,776.
- The Town's actual total expenditures were less than budgeted expenditures by \$29,935.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's capital assets at September 30, 2013 net of accumulated depreciation were \$4,610,078. Capital assets consist primarily of buildings and improvements, machinery, and equipment and infrastructure. The following is a summary of capital assets at September 30, 2013:

Summary of Capital Assets (Net of Depreciation)

	Governmental Activities	
	2013	2012
Land	\$ 441,969	\$ 441,969
Construction in progress	-	794,097
Buildings and improvements	636,359	822,473
Machinery and equipment	462,210	600,430
Infrastructure	3,069,540	1,589,168
Total capital assets	\$ 4,610,078	\$ 4,248,137

More detailed information about the Town's capital assets can be found in Note 5 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Town expects to collect more revenues from lease agreements due to lease contracts signed with Verizon wireless.
- The Town will see an increase in property tax revenues due to an increase in assessed values.

All of these factors were considered in preparing the Town's budget for the 2013 fiscal year. The 2013 budget will include the hiring of two full-time patrol officers and part-time office employee. The real property tax rate will remain at \$0.3391 per \$100 of valuation.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Town of Laguna Vista
122 Fernandez Street
Laguna Vista, Texas 78578

BASIC FINANCIAL STATEMENTS

TOWN OF LAGUNA VISTA, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government	Component Unit
	Governmental Activities	Community Development Corporation
ASSETS		
Cash and cash equivalents	\$ 1,144,953	\$ 168,849
Receivables, (net):		
Property taxes	44,103	-
Franchise fees	6,708	-
Other	76,952	3,836
Capital assets, net of accumulated depreciation	<u>4,610,078</u>	<u>83,450</u>
Total assets	<u>5,882,794</u>	<u>256,135</u>
LIABILITIES		
Accounts payable	69,644	-
Due to state	23,290	-
Noncurrent liabilities:		
Due within one year	55,000	-
Due in more than one year	<u>1,335,000</u>	<u>-</u>
Total liabilities	<u>1,482,934</u>	<u>-</u>
NET POSITION		
Investment in Capital Assets	3,220,078	83,450
Restricted for:		
Hotel occupancy	63,910	-
Debt service	41,970	-
Capital projects	74,005	-
Unrestricted	<u>999,897</u>	<u>172,685</u>
Total net position	<u>\$ 4,399,860</u>	<u>\$ 256,135</u>

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

TOWN OF LAGUNA VISTA, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary	Component
				Governmental Activities	Unit Economic Development Corporation
Primary Government:					
General government	\$ 569,203	\$ 215,097	\$ 45,639	\$ (308,467)	\$ -
Public safety	538,515	-	7,224	(531,291)	-
Public works	328,539	-	304,104	(24,435)	-
Culture and recreation	120,748	18,426	5,000	(97,322)	-
Interest and charges on long-term debt	58,024	-	-	(58,024)	-
Total primary government	<u>1,615,029</u>	<u>233,523</u>	<u>361,967</u>	<u>(1,019,539)</u>	-
Component Unit:					
Community Development Corporation	<u>5,980</u>	<u>-</u>	<u>-</u>		<u>(5,980)</u>
Total component unit	<u>5,980</u>	<u>-</u>	<u>-</u>		<u>(5,980)</u>
General revenues:					
Property taxes				934,801	-
Hotel/motel taxes				13,119	53,688
Sales taxes				106,925	-
Franchise taxes				136,002	-
Investment earnings				4,059	814
Miscellaneous income				<u>6,938</u>	<u>-</u>
Total general revenues				<u>1,201,844</u>	<u>54,502</u>
Change in net position				182,305	48,522
Net position - beginning of year				4,282,681	209,670
Prior period adjustment				<u>(65,126)</u>	<u>(2,057)</u>
Net position - ending of year				<u>\$ 4,399,860</u>	<u>\$ 256,135</u>

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

TOWN OF LAGUNA VISTA, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General	Certificate of Obligation	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 942,085	\$ 74,005	\$ 128,863	\$ 1,144,953
Receivables, (net):				
Property taxes	42,291	-	1,812	44,103
Franchise fees	6,708	-	-	6,708
Other	8,241	-	68,711	76,952
Due from other funds	100,000	-	-	100,000
Total assets	<u>\$ 1,099,325</u>	<u>\$ 74,005</u>	<u>\$ 199,386</u>	<u>\$ 1,372,716</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 933	\$ -	\$ 68,711	\$ 69,644
Due to state	23,290	-	-	23,290
Due to other funds	100,000	-	-	100,000
Salaries payable	-	-	-	-
Deferred revenue	42,291	-	1,812	44,103
Total liabilities	<u>166,514</u>	<u>-</u>	<u>70,523</u>	<u>237,037</u>
Fund Balances:				
Restricted for:				
Hotel occupancy	-	-	63,910	63,910
Debt service fund	-	-	41,970	41,970
Capital projects fund	-	74,005	-	74,005
Unassigned:				
General fund	932,811	-	-	932,811
Special revenue fund	-	-	2,272	2,272
Capital projects fund	-	-	20,711	20,711
Total fund balances	<u>932,811</u>	<u>74,005</u>	<u>128,863</u>	<u>1,135,679</u>
Total liabilities and fund balances	<u>\$ 1,099,325</u>	<u>\$ 74,005</u>	<u>\$ 199,386</u>	<u>\$ 1,372,716</u>

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

TOWN OF LAGUNA VISTA, TEXAS

**RECONCILIATION OF THE GOVERNMENT FUND
BALANCE SHEET AND THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION**

SEPTEMBER 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances- governmental funds	\$	1,135,679
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and therefore, are not reported in funds.		4,610,078
Some of the Town's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.		44,103
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		<u>(1,390,000)</u>
Net position of governmental activities	\$	<u>4,399,860</u>

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

TOWN OF LAGUNA VISTA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General	Certificate of Obligation	Total Nonmajor Governmental Revenues	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 797,353	\$ -	\$ 131,547	\$ 928,900
Penalties and interest taxes	13,250	-	-	13,250
Hotel/motel taxes	-	-	13,119	13,119
Sales and use tax	106,925	-	-	106,925
Franchise fees	136,002	-	-	136,002
Licenses and permits	18,426	-	-	18,426
Fines and forfeitures	202,598	-	-	202,598
Charges for services	12,499	-	-	12,499
Intergovernmental	57,863	-	304,104	361,967
Investment earnings	2,796	186	1,077	4,059
Miscellaneous	6,760	-	178	6,938
Total revenues	<u>1,354,472</u>	<u>186</u>	<u>450,025</u>	<u>1,804,683</u>
Expenditures:				
Administrative salaries	161,982	-	-	161,982
Municipal court salaries	21,178	-	-	21,178
Police salaries	311,142	-	-	311,142
Fire department salaries	30,669	-	-	30,669
Public works salaries	45,613	-	-	45,613
Library salaries	52,488	-	-	52,488
General government	298,341	17,385	10,395	326,121
Public safety	140,012	-	-	140,012
Public works	47,460	13,354	304,104	364,918
Culture and recreation	55,548	-	-	55,548
Debt service - principal	-	-	55,000	55,000
Debt service - interest and fiscal charges	-	-	58,024	58,024
Capital outlay:				
General government	21,672	-	-	21,672
Public safety	22,656	-	-	22,656
Public works	-	-	-	-
Culture and recreation	-	445,644	-	445,644
Total expenditures	<u>1,208,761</u>	<u>476,383</u>	<u>427,523</u>	<u>2,112,667</u>
Excess (deficiency) of revenues over (under) expenditures	<u>145,711</u>	<u>(476,197)</u>	<u>22,502</u>	<u>(307,984)</u>
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>145,711</u>	<u>(476,197)</u>	<u>22,502</u>	<u>(307,984)</u>
Fund balances, beginning	771,529	550,202	106,361	1,428,092
Prior period adjustment	<u>15,571</u>	<u>-</u>	<u>-</u>	<u>15,571</u>
Fund balances, ending	<u>\$ 932,811</u>	<u>\$ 74,005</u>	<u>\$ 128,863</u>	<u>\$ 1,135,679</u>

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

TOWN OF LAGUNA VISTA, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Net change in fund balances - total governmental funds	\$ (307,984)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount which capital outlays exceeded depreciation in the current period and any gain or loss on disposition of assets.	442,638
Governmental funds reported long-term debt principal payments as expenditures. However, in the statement of activities these payments are reductions in the long-term liabilities in the statement of net position	55,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(7,349)</u>
Change in net position of governmental activities	<u>\$ 182,305</u>

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

**NOTES TO THE
FINANCIAL STATEMENTS**

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Laguna Vista, Texas (the "Town") was incorporated under Texas law as a Type B general-law municipality in 1958. On June 9, 1993, it was changed to a Type A general-law municipality. The Town is governed by a Mayor, City Manager and a board of five Aldermen, all of whom are elected officials that serve a two year term.

The following is a summary of the Town's significant accounting policies consistently applied in the preparation of the accompanying financial statements:

Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting," in that the financial statements include all organizations, activities, functions, and component units for the Town (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the Town's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Town.

The following discretely presented component unit is reported in a separate column in the financial statements to emphasize it is legally separate from the Town. The discretely presented component unit has a September 30 year end.

On May 13, 1998, the Town passed an ordinance approving and authorizing the creation of Laguna Vista Community Development Corporation to promote economic development within the Town and the State of Texas in order to eliminate unemployment and underemployment and to promote and encourage employment and the public welfare of, for and on behalf of the Town, and for the parks, auditoriums, learning centers, open space improvements, water sewage, street drainage, athletic and exhibition facilities, and other related improvements and for maintenance and operating costs of the publicly owned and operated projects by developing, implementing, providing and financing projects. The Community Development Corporation is operated and maintained as a separate and distinct entity from the Town. It is a non-profit corporation, exempt from federal income taxes under Code Section 115 of the Internal Revenue Code. (The affairs of the Corporation are managed by a Board of Directors composed of seven (7) persons appointed by the Board of Aldermen and a chief administrative officer, a finance manager and a secretary, all of whom shall be employees of the Town.)

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 nonfiduciary 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 inter-governmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

Program revenue includes 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 revenue are reported instead as *general revenues*.

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Major individual governmental funds are reported as separate columns on the fund financial statements.

The general fund is the government'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 capital projects fund is used to account for financial resources which are used for the acquisition or construction of capital assets.

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*, as are the proprietary fund financial statements. Revenue is 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 revenue 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Capital asset acquisitions are reported as expenditures in government funds. Proceeds from long-term debt and acquisitions under capital leases are reported other financing sources.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. The Town of Laguna Vista, Texas does not utilize the encumbrance system. The annual budget appropriations lapse at the fiscal year end.

The Town of Laguna Vista follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Mayor and Members of the Board of Aldermen establish the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. The Mayor and Members of the Board of Aldermen prepare an operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted at City Hall to obtain taxpayer comments.
- d. Prior to October 1st, the budget is adopted by the Board of Aldermen.
- e. Revisions that alter individual expenditure category or department totals within a fund must be approved by the Board of Aldermen.
- f. Formal budgetary information is employed as a management control device during the year for the General Fund.

Excess of Expenditures Over Appropriations

For the year ended September 30, 2013 expenditures exceeded budget in the following line items:

General Fund		
<u>Budget Line</u>	<u>Amount</u>	
General government	\$	26,204
Public works		3,509
Culture and recreation		38,698

Cash and Cash Equivalents

The Town defines cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less meet this definition. The Town's Commission considers certificates of deposit as investments.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property Taxes

The Town's ad valorem property tax is levied each October 1st on the assessed value listed as of the prior January 1st for all real and certain personal property located within the Town. Property taxes attach as an enforceable lien on property as of January 1st after they are levied. The assessed value upon which the 2012 levy was based on was \$306,747,280. Taxes are due on October 1st, and are delinquent after the following January 31st. Current tax collections for the year ended September 30, 2013 were 98.4% of the tax levy.

The Town is permitted by Article XI, Section 4 of the State of Texas Constitution to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services, including the payment of principle and interest on general obligation long-term debt, if any. The combined tax rate to finance general obligation services for the year ended September 30, 2013 was \$0.33910 per \$100 of assessed valuation.

Transactions Between Funds and Between Funds and Component Units

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other Interfund transactions, except quasi-external transactions and reimbursements, are recorded as transfers.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the governmental-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at fair market value on the date donated. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset lives are not capitalized. Renewals and betterments are capitalized.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Buildings Improvements	20 years
Improvements other than Buildings	20 years
Infrastructure	75 years
Furniture and Fixtures	20 years
Machinery and Equipment (Includes Vehicles)	5-10 years

Deferred Revenue

Deferred revenues in the General Fund consist of property taxes levied but not collected.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compensated Absences

Vacation leave is accumulated at the rate of two weeks after the first full year of employment. Vacation leave will be forfeited if not used before the succeeding vacation year and cannot be accumulated from year to year.

Sick leave accumulates at the rate of 5 days per year. Sick leave may be accumulated for a total of not more than five days. Sick leave cannot be accrued from year to year and must be used before the anniversary date of employment or be forfeited.

Long-term Obligations

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by court resolution of the Town Council, the Town's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Balance Classification

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

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

Net Position

Net position represents 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 are 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.

Use of Estimates

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the government fund balance sheet and the governmental-wide statement of net position

The government fund balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable are not debt and is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

Bonds payable	<u>\$ 1,390,000</u>
	<u>\$ 1,390,000</u>

Another element of that reconciliation explains that when capital assets (land, building, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

However, the statement of net position includes those capital assets among the assets of the Town as a whole.

Capital Assets - Cost	\$ 5,945,274
Accumulated Depreciation	<u>(1,335,196)</u>
	<u>\$ 4,610,078</u>

Explanation of certain differences between the government fund balance sheet and the governmental-wide statement of net position

Another element of that reconciliation explains that because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenue in the governmental funds and thus are not included in fund balance.

Adjustment of deferred	\$ 44,103
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Explanation of certain differences between the government fund balance sheet and the governmental-wide statement of net position

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the governmental-wide statement of activities as reported in the governmental-wide statement of activities. One element of the reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense".

The details of this \$177,629 difference are as follows:

Depreciation expense	\$ 177,629
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3. DEPOSITS AND INVESTMENTS

The following is a detail of cash and cash equivalents as of September 30, 2013:

Cash on hand	\$ 50
Deposits	619,632
Money market funds	<u>694,120</u>
	<u>\$ 1,313,802</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. All deposits are entirely insured or collateralized. State law requires banks to secure the Town's deposits by pledging government securities valued at 110% of the amount of the deposit as collateral. The Town may waive the collateral requirement for deposits that are fully insured by the Federal Deposit Insurance Corporation. As of September 30, 2013, the Town's carrying amounts of deposits were \$1,313,752 and the bank balances were \$1,331,364. The bank balances for 2013 were fully insured by FDIC coverage and pledged collateral.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

4. PROPERTY TAXES RECEIVABLE

Property taxes receivable at September 30, 2013 are as follows:

Taxes	\$ 44,103
Less: Allowance for uncollectible	<u>-</u>
Net total receivables	<u><u>\$ 44,103</u></u>

The Town recognizes property tax revenue on a modified accrual basis. The Town considers property taxes as measurable and available if they are collected within 60 days after year-end. The deferred revenue, therefore, is equal to property taxes receivable.

Taxes levied by the Town are collected through the Cameron County Tax Assessor – Collector’s Office.

Taxes are considered delinquent on February 1st of the following year. Liens on property for unpaid taxes go into effect on July 1st of the year the taxes become delinquent.

5. CAPITAL ASSETS

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

Primary Government	Balance October 1, 2012	Additions	Deletions	Adjustments/ Reclasses	Balance September 30, 2013
<u>Governmental Activities</u>					
Capital assets, not being depreciated:					
Land	\$ 441,969	\$ -	\$ -	\$ -	\$ 441,969
Construction in progress	<u>794,097</u>	<u>-</u>	<u>-</u>	<u>(794,097)</u>	<u>-</u>
Total capital assets, not depreciated	<u>1,236,066</u>	<u>-</u>	<u>-</u>	<u>(794,097)</u>	<u>441,969</u>
Capital assets, being depreciated:					
Buildings	517,897	-	-	-	517,897
Buildings improvements	46,855	-	-	-	46,855
Improvements other than buildings	521,602	-	-	(164,881)	356,721
Machinery and equipment	1,132,272	37,690	-	(20,498)	1,149,464
Infrastructure	<u>1,915,127</u>	<u>582,577</u>	<u>-</u>	<u>934,664</u>	<u>3,432,368</u>
Total capital assets, depreciated	<u>4,133,753</u>	<u>620,267</u>	<u>-</u>	<u>749,285</u>	<u>5,503,305</u>
Total capital assets, depreciated and not depreciated	<u>5,369,819</u>	<u>620,267</u>	<u>-</u>	<u>(44,812)</u>	<u>5,945,274</u>
Less accumulated depreciated:					
Buildings	(145,787)	(10,357)	-	5,609	(150,535)
Buildings Improvements	(23,606)	(2,343)	-	234	(25,715)
Improvements other than buildings	(94,488)	(21,684)	-	7,308	(108,864)
Machinery and equipment	(531,842)	(97,517)	-	(57,895)	(687,254)
Infrastructure	<u>(325,959)</u>	<u>(45,728)</u>	<u>-</u>	<u>8,859</u>	<u>(362,828)</u>
Total accumulated depreciated	<u>(1,121,682)</u>	<u>(177,629)</u>	<u>-</u>	<u>(35,885)</u>	<u>(1,335,196)</u>
Total capital assets, being depreciated, net	<u>3,012,071</u>	<u>442,638</u>	<u>-</u>	<u>713,400</u>	<u>4,168,109</u>
Governmental activities capital assets, net	<u><u>\$ 4,248,137</u></u>	<u><u>\$ 442,638</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (80,697)</u></u>	<u><u>\$ 4,610,078</u></u>

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

5. CAPITAL ASSETS

Capital assets for the Community Development Corporation for the year ended September 30, 2013 were as follows:

	Balance October 1, 2012	Additions	Deletions	Adjustments/ Reclasses	Balance September 30, 2013
<u>CDC - Component Unit</u>					
Capital assets, being depreciated:					
Infrastructure	\$ 82,201	\$ -	\$ -	\$ -	\$ 82,201
Machinery and equipment	10,020	-	-	-	10,020
Total capital assets, depreciated	<u>92,221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,221</u>
Less accumulated depreciation:					
Infrastructure	(3,381)	(2,057)	-	-	(5,438)
Machinery and equipment	(3,333)	-	-	-	(3,333)
Total accumulated depreciation	<u>(6,714)</u>	<u>(2,057)</u>	<u>-</u>	<u>-</u>	<u>(8,771)</u>
Total capital assets, being depreciated, net	<u>\$ 85,507</u>	<u>\$ (2,057)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,450</u>

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

Governmental activities	
General government	\$ 59,922
Public safety	56,692
Public works	48,303
Culture and recreation	<u>12,712</u>
Total depreciation expense, governmental activities	<u>\$ 177,629</u>

6. BONDS PAYABLE

Bonds payable at September 30, 2013 are comprised of the following individual issues:

The Certificate of obligation – Series 2011 are due in annual installments ranging from \$107,828 to \$112,367 with interest at 3.97%.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

6. BONDS PAYABLE

Principal and interest amounts are due as follows:

Year Ending September 30,	Bonds Payable		Total Requirements
	Principal	Interest	
2014	\$ 55,000	\$ 55,184	\$ 110,184
2015	55,000	53,000	108,000
2016	60,000	50,816	110,816
2017	60,000	48,434	108,434
2018	65,000	46,052	111,052
2019-2023	355,000	190,163	545,163
2024-2028	435,000	113,741	548,741
2029-2033	305,000	24,416	329,416
Totals	<u>\$ 1,390,000</u>	<u>\$ 581,806</u>	<u>\$ 1,971,806</u>

7. CHANGES IN LONG TERM LIABILITIES

Changes in long-term obligations are as follows:

	Balance Outstanding October 1, 2012	Additions	Reductions	Balance Outstanding September 30, 2013	Due Within One Year
Bonds payable	\$ 1,445,000	\$ -	\$ 55,000	\$ 1,390,000	\$ 55,000
Total long-term debt	<u>\$ 1,445,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 1,390,000</u>	<u>\$ 55,000</u>

8. CONTINGENT LIABILITIES

There is a lawsuit pending against the Town, but a reasonable estimate cannot be made about the future results. The Town's management and legal counsel do not believe the pending litigation will affect the Town.

9. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Town provides pension benefits for all of its eligible employees (except for firefighters, and librarians) through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide 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.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

9. EMPLOYEE RETIREMENT SYSTEM

Contributions

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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at 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>2012</u>	<u>2013</u>
Employee deposit rate	5%	5%
Matching ratio (Town to employee)	1.5 to 1	1.5 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	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Under the state law governing TMRS, the contribution rate for each Town is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the Town. 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.

TOWN OF LAGUNA VISTA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

9. EMPLOYEE RETIREMENT SYSTEM

Contributions

Schedule of Actuarial liabilities and Funding Progress

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 410,404
Actuarial Accrued Liability	401,106
Percentage Funded	102.3%
Unfunded (Over-Funded) Actuarial Accrued Liability (UAAL)	(9,298)
Annual Covered Payroll	486,186
UAAL as a Percentage of Covered Payroll	-1.9%
Net Pension Obligation (NPO) at the beginning of period	-
Annual Pension Cost:	
Annual required contribution (ARC)	13,257
Contributions Made	<u>13,257</u>
NPO at the end of the period	<u>\$ -</u>

Actuarial Cost Method	- Projected Unit Credit
Amortization Method	- Level Percent of Payroll
Remaining Amortization Period	- 23.6 years - Closed Period
Asset Valuation Method	- 10 year smoothed Market
Investment Rate of Return	- 7.00%
Projected Salary Increases	- Varies by age and service
Includes Inflation At	- 3.00%
Cost-of-Living Adjustments	- 0.00%

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF LAGUNA VISTA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 819,000	\$ 833,000	\$ 797,353	\$ (35,647)
Penalties and interest taxes	10,000	10,000	13,250	3,250
Sales and use tax	90,000	90,000	106,925	16,925
Franchise fees	102,500	102,500	136,002	33,502
Licenses and permits	16,500	15,900	18,426	2,526
Fines and forfeitures	124,600	124,100	202,598	78,498
Charges for services	9,300	16,300	12,499	(3,801)
Intergovernmental	37,500	40,596	57,863	17,267
Investment earnings	200	300	2,796	2,496
Miscellaneous	6,000	6,000	6,760	760
Total revenues	<u>1,215,600</u>	<u>1,238,696</u>	<u>1,354,472</u>	<u>115,776</u>
EXPENDITURES				
Administrative salaries	187,981	189,281	161,982	27,299
Municipal court salaries	25,446	25,446	21,178	4,268
Police salaries	315,395	313,895	311,142	2,753
Fire department salaries	27,160	27,160	30,669	(3,509)
Public works salaries	64,830	63,830	45,613	18,217
Library salaries	53,685	53,685	52,488	1,197
General government	270,389	272,137	298,341	(26,204)
Public safety	156,155	174,551	140,012	34,539
Public works	97,709	101,861	47,460	54,401
Culture and recreation	16,850	16,850	55,548	(38,698)
Debt service	-	-	-	-
Capital outlay:				
General government	-	-	21,672	(21,672)
Public safety	-	-	22,656	(22,656)
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Total Expenditures	<u>1,215,600</u>	<u>1,238,696</u>	<u>1,208,761</u>	<u>29,935</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>145,711</u>	<u>85,841</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>145,711</u>	<u>85,841</u>
FUND BALANCES, BEGINNING	153,468	441,593	771,529	329,936
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>15,571</u>	<u>15,571</u>
FUND BALANCES, ENDING	<u>\$ 153,468</u>	<u>\$ 441,593</u>	<u>\$ 932,811</u>	<u>\$ 431,348</u>

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

TOWN OF LAGUNA VISTA, TEXAS

SCHEDULE OF FUNDING PROGRESS - TEXAS MUNICIPAL
RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2003	\$ 42,767	\$ 88,594	\$ 45,827	48.3%	\$ 145,752	31.4%
12/31/2004	64,401	113,264	48,863	56.9%	174,780	28.0%
12/31/2005	85,760	123,658	37,898	69.4%	179,787	21.1%
12/31/2006	115,690	148,381	32,691	78.0%	268,793	12.2%
12/31/2007	161,615	194,225	32,610	83.2%	415,634	7.8%
12/31/2008	205,399	210,659	5,260	97.5%	359,605	1.5%
12/31/2009	256,257	263,923	7,666	97.1%	445,153	1.7%
12/31/2010	297,548	302,129	4,581	98.5%	452,143	1.0%
12/31/2011	361,181	352,032	(9,149)	102.6%	482,516	-1.9%
12/31/2012	410,404	401,106	(9,298)	102.3%	486,186	-1.9%

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

TOWN OF LAGUNA VISTA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue		Debt Service
	Hotel Occupancy Tax	Police Forfeiture	Debt Service
ASSETS			
Cash and investments	\$ 63,910	\$ 2,272	\$ 41,970
Accounts receivable	-	-	-
Property taxes receivable	-	-	1,812
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	\$ 63,910	\$ 2,272	\$ 43,782
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Deferred revenue	-	-	1,812
Due to other funds	-	-	-
Total liabilities	-	-	1,812
 Fund balances:			
Restricted for:			
Hotel occupancy	63,910	-	-
Debt service fund	-	-	41,970
Unassigned:			
Special revenue funds	-	2,272	-
Capital projects fund	-	-	-
Total fund balances	63,910	2,272	41,970
Total liabilities and fund balances	\$ 63,910	\$ 2,272	\$ 43,782

EXHIBIT H-1

Capital Projects			Total
Street Improvements	TCDP Project 710389	TCDP Project 712181	Nonmajor Governmental Funds
\$ 20,711	\$ -	\$ -	\$ 128,863
-	-	-	-
-	-	-	1,812
-	-	-	-
-	-	68,711	68,711
<u>\$ 20,711</u>	<u>\$ -</u>	<u>\$ 68,711</u>	<u>\$ 199,386</u>
\$ -	\$ -	\$ 68,711	\$ 68,711
-	-	-	-
-	-	-	1,812
-	-	-	-
<u>-</u>	<u>-</u>	<u>68,711</u>	<u>70,523</u>
-	-	-	63,910
-	-	-	41,970
-	-	-	2,272
<u>20,711</u>	<u>-</u>	<u>-</u>	<u>20,711</u>
<u>20,711</u>	<u>-</u>	<u>-</u>	<u>128,863</u>
<u>\$ 20,711</u>	<u>\$ -</u>	<u>\$ 68,711</u>	<u>\$ 199,386</u>

TOWN OF LAGUNA VISTA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue		Debt Service
	Hotel/ Motel Tax	Police Forfeiture	Debt Service
REVENUES			
Property taxes	\$ -	\$ -	\$ 131,547
Hotel/motel taxes	13,119	-	-
Sales taxes	-	-	-
Intergovernmental	-	-	-
Investment earnings	343	12	603
Miscellaneous revenue	-	172	6
Total revenues	13,462	184	132,156
EXPENDITURES			
Current:			
General government	10,395	-	-
Public safety	-	-	-
Public works	-	-	-
Social services	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	55,000
Interest and fiscal charges	-	-	58,024
Total expenditures	10,395	-	113,024
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,067	184	19,132
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	-
Total other financing sources (uses)	-	-	-
NET CHANGE IN FUND BALANCES	3,067	184	19,132
FUND BALANCES, BEGINNING	60,843	2,088	22,838
PRIOR PERIOD ADJUSTMENT	-	-	-
FUND BALANCES, ENDING	\$ 63,910	\$ 2,272	\$ 41,970

EXHIBIT H-2

Street Improvements	Capital Projects		Total Nonmajor Governmental Funds
	TCDP Project 710389	TCDP Project 712181	
\$ -	\$ -	\$ -	\$ 131,547
-	-	-	13,119
-	-	-	-
-	129,767	174,337	304,104
119	-	-	1,077
-	-	-	178
<u>119</u>	<u>129,767</u>	<u>174,337</u>	<u>450,025</u>
-	-	-	10,395
-	-	-	-
-	129,767	174,337	304,104
-	-	-	-
-	-	-	-
-	-	-	55,000
-	-	-	58,024
<u>-</u>	<u>129,767</u>	<u>174,337</u>	<u>427,523</u>
<u>119</u>	<u>-</u>	<u>-</u>	<u>22,502</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
119	-	-	22,502
20,592	-	-	106,361
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 20,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,863</u>

COMPLIANCE SECTION

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

Town Council
Town of Laguna Vista, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Laguna Vista, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Laguna Vista, Texas' basic financial statements, and have issued our report thereon dated January 10, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 of Laguna Vista, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that 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.

Pattillo, Brown & Hill, C.P.A.

Brownsville, Texas
January 10, 2014

LAST PAGE