

CITY OF MOULTON, TEXAS
INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JULY 31, 2008



Montemayor Hill & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Mayor and City Council
City of Moulton, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund information of the City of Moulton, Texas, (City) as of and for the year ended July 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund information of the City of Moulton, Texas, as of July 31, 2008, the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Montemayor Hill & Company, P.C.

30 April 2009
Austin, Texas

3001 SOUTH LAMAR BOULEVARD
SUITE 320
AUSTIN, TEXAS 78704
PHONE: 512.442.0380
FAX: 512.442.0817
www.montemayorhill.com

CITY OF MOULTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2008

This discussion and analysis is intended to be an easily readable analysis of the City of Moulton, Texas' (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should read with the financial statements that follow.

REPORT LAYOUT

In addition to the Management's Discussion Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, parks and recreation, street maintenance, and general government administration. The business-type activities include the electric, water, sewer and sanitation departments.

Basic Financial Statements:

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.
- The Statement of Activities focuses on costs of City programs and the extent to which such Programs rely upon general tax and other revenues. This statement summarizes and simplifies the User's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. A budgetary comparison is presented for the general fund. Statements for the City's proprietary funds follow the governmental funds and include net assets, revenue, expenses and changes in net assets and cash flow.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

CONDENSED FINANCIAL INFORMATION

Assets, Liabilities and Net Assets:

	<u>July 31 2007</u>	<u>July 31, 2008</u>
Capital assets	\$5,977,523	\$6,203,917
Other assets	<u>1,333,702</u>	<u>1,429,833</u>
	<u>\$7,311,225</u>	<u>\$7,633,750</u>
Current liabilities	\$176,698	\$294,852
Long-term liabilities	<u>1,572,499</u>	<u>1,513,056</u>
	<u>\$1,749,197</u>	<u>\$1,807,908</u>
Net assets:		
Invested in capital assets	\$4,349,150	\$4,631,418
Reserved for police training	2,945	3,002
Unrestricted	1,184,679	1,191,422
Other	<u>25,254</u>	<u>0</u>
	<u>\$5,562,028</u>	<u>\$5,825,842</u>
Revenue and Expenses:		
Program revenue:		
Business-type revenue	\$1,727,896	\$1,697,202
General government	40,520	0
Public safety	18,038	23,718
Park	<u>9,666</u>	<u>8,015</u>
	<u>1,796,120</u>	<u>1,728,935</u>
General revenue:		
Taxes	293,873	291,355
Interest	36,832	33,603
other	<u>14,469</u>	<u>39,958</u>
	<u>345,174</u>	<u>364,916</u>
Capital grants	<u>34,900</u>	<u>26,382</u>
TOTAL REVENUE	<u>\$2,176,194</u>	<u>\$2,120,233</u>

EXPENSES:

	<u>July 31, 2007</u>	<u>July 31, 2008</u>
General government	\$168,475	\$190,944
Public safety	152,897	141,568
Park	69,490	69,168
Depreciation		40,660
Streets	29,654	13,562
Emergency management	0	3,128
Fire marshall	0	2,050
Business-type expenses	<u>1,414,613</u>	<u>1,416,201</u>
	<u>1,835,129</u>	<u>1,877,281</u>
CHANGE IN NET ASSETS	<u>\$341,065</u>	<u>\$259,292</u>

FINANCIAL POSITION

Current assets as of July 31, 2008 of \$1,429,833 exceeded current liabilities of \$235,409 by \$1,194,424, indicating a strong current ratio which remained consistent with prior year amounts.

The fund balance/(deficit) in the general fund as of year end was (\$1,130) compared to \$60,193. The decrease was mainly the result of significantly less operating transfers from the proprietary (business) funds.

The City acquired approximately \$382,000 in capital assets relating to street and building improvements, and paid off almost \$60,000 in debt.

CITY OF MOULTON, TEXAS

STATEMENT OF NET ASSETS

JULY 31, 2008

	<u>Governmental Activities</u>	<u>Business -type Activities</u>	<u>Total</u>
Current assets			
Cash	\$9,009	\$1,113,181	\$1,122,190
Property taxes receivable	13,410	0	13,410
Sales taxes receivable	12,781	0	12,781
Customer accounts receivable	0	194,084	194,084
Inventory	<u>0</u>	<u>87,368</u>	<u>87,368</u>
	<u>35,200</u>	<u>1,394,633</u>	<u>1,429,833</u>
Capital assets	<u>500,380</u>	<u>5,703,537</u>	<u>6,203,917</u>
	<u>\$535,580</u>	<u>\$7,098,170</u>	<u>\$7,633,750</u>
			<u>0</u>
LIABILITIES AND NET ASSETS			
Current liabilities			<u>0</u>
Accounts payable	\$22,920	\$125,010	<u>\$147,930</u>
Customer deposits	0	76,370	76,370
Accrued liabilities	0	11,109	11,109
	<u>22,920</u>	<u>212,489</u>	<u>235,409</u>
Long-term debt	<u>0</u>	<u>1,572,499</u>	<u>1,572,499</u>
	<u>22,920</u>	<u>1,784,988</u>	<u>1,807,908</u>
Net assets			0
Invested in capital assets net of related debt	500,380	4,131,038	4,631,418
Reserved, police training	3,002	0	3,002
Unrestricted	<u>9,278</u>	<u>1,182,144</u>	<u>1,191,422</u>
	<u>512,660</u>	<u>5,313,182</u>	<u>5,825,842</u>
	<u>\$535,580</u>	<u>\$7,098,170</u>	<u>\$7,633,750</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

BALANCE SHEET-GOVERNMENTAL FUNDS
(GENERAL FUND)

JULY 31, 2008

ASSETS

Cash	\$9,009
Property taxes receivable	13,410
Sales taxes receivable	<u>12,781</u>
	<u>\$35,200</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable and accrued liabilities	\$22,920
Deferred taxes	<u>13,410</u>
	<u>36,330</u>

Fund balances

Unreserved	(4,132)
Reserved, police training	<u>3,002</u>
	<u>(1,130)</u>
	<u>\$35,200</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

RECONCILIATION OF GOVERNMENT FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

JULY 31, 2008

Total government fund balances	(\$1,130)
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and therefore, are not reported in the funds.	500,380
Delinquent taxes receivable are not considered available to pay for current period expenditures and therefore, are in the funds.	<u>13,410</u>
Net assets of government activities	<u>\$512,660</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (GENERAL FUND)**

YEAR ENDED JULY 31, 2008

	<u>Actual</u>	Original and Final <u>Budget</u>	<u>Variance</u>
REVENUE			
Sales taxes	\$108,692	\$110,000	(\$1,308)
Ad valorem taxes	107,619	110,175	(2,556)
Franchise fees	58,233	55,000	3,233
Administrative fees from proprietary fund	29,750	29,750	0
Grants	26,382	0	26,382
Court fines	23,718	15,000	8,718
Usage fees	8,015	8,950	(935)
Interest	4,065	825	3,240
Beverage taxes	3,401	3,200	201
Other	<u>13,716</u>	<u>7,500</u>	<u>6,216</u>
	<u>383,591</u>	<u>340,400</u>	<u>43,191</u>
EXPENDITURES			
General government	190,944	189,696	(1,248)
Public safety	141,568	153,818	12,250
Park	69,168	59,889	(9,279)
Capital outlay	56,016	57,000	984
Streets	13,562	10,925	(2,637)
Emergency management	3,128	0	(3,128)
Fire Marshall	<u>2,050</u>	<u>3,096</u>	<u>1,046</u>
	<u>476,436</u>	<u>474,424</u>	<u>(2,012)</u>
REVENUE OVER EXPENDITURES	(92,845)	(134,024)	45,203
Transfers from proprietary fund	27,000	0	27,000
Prior period adjustment	4,522	0	4,522
BEGINNING FUND BALANCES, as previously reported	<u>60,193</u>	<u>60,193</u>	<u>0</u>
ENDING FUND BALANCES	<u>(\$1,130)</u>	<u>(\$73,831)</u>	<u>\$76,725</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

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

FOR THE YEAR ENDED JULY 31, 2008

Net change in fund balances-total governmental funds after transfers	(\$65,845)
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded in the current period.	56,016
Depreciation expense on capital assets reported in the government-wide statement of activities and changes in net assets does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(40,660)
Change in net assets of governmental activities	<u>(\$50,489)</u>

CITY OF MOULTON, TEXAS

STATEMENT OF NET ASSETS-PROPRIETARY FUNDS
(BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS)

JULY 31, 2008

ASSETS

Current assets

Cash	\$1,113,181
Customer accounts receivable	194,084
Inventory	<u>87,368</u>
	1,394,633

Capital assets

5,703,537

\$7,098,170

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$125,010
Customer deposits	76,370
Accrued liabilities	<u>11,109</u>
	212,489

Long-term debt

1,572,499

1,784,988

Net assets

Invested in capital assets net of related debt	4,131,038
Unrestricted	<u>1,182,144</u>
	<u>5,313,182</u>

\$7,098,170

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 (BUSINESS-TYPE ACTIVITIES-ENTERPRISE FUNDS)**

FOR THE YEAR ENDED JULY 31, 2008

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Revenue					
Charges for services	\$1,249,568	\$197,592	\$124,003	\$126,039	\$1,697,202
Interest	25,213	3,882	0	443	29,538
Late fees	14,017	0	0	0	14,017
Other	<u>10,325</u>	<u>1,509</u>	<u>391</u>	<u>0</u>	<u>12,225</u>
	<u>1,299,123</u>	<u>202,983</u>	<u>124,394</u>	<u>126,482</u>	<u>1,752,982</u>
Expenses					0
Personnel	81,516	43,540	43,485	0	168,541
Chemicals/samples	0	6,647	23,024	0	29,671
Franchise fees	33,150	4,530	0	0	37,680
Utilities	8,142	14,501	41,371	0	64,014
Administrative fees	18,000	5,000	0	0	23,000
Maintenance/repair	9,507	20,973	16,519	0	46,999
Interest	76,201	0	0	0	76,201
Depreciation	37,000	52,000	28,500	0	117,500
Power purchased	684,116	0	0	0	684,116
Wholesale garbage	0	0	0	113,661	113,661
Other	<u>20,821</u>	<u>13,694</u>	<u>14,299</u>	<u>6,004</u>	<u>54,818</u>
	<u>968,453</u>	<u>160,885</u>	<u>167,198</u>	<u>119,665</u>	<u>1,416,201</u>
Revenue over expenses	330,670	42,098	(42,804)	6,817	336,781
Transfers out	(27,000)	0	0	0	(27,000)
Beginning net assets	<u>1,579,873</u>	<u>3,363,891</u>	<u>42,804</u>	<u>16,833</u>	<u>5,003,401</u>
Ending net assets	<u>\$1,883,543</u>	<u>\$3,405,989</u>	<u>\$0</u>	<u>\$23,650</u>	<u>\$5,313,182</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Moulton, Texas (City), is incorporated as a political subdivision under the laws of the State of Texas. The City operates under Mayor-Alderman form of government and provides the following services as authorized by state law: Public Safety, Highways and Streets, Recreation, Public Improvements, Utilities (Electric, Water, Sewer, and Sanitation) and General Administrative Services.

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to the accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounting and reporting policies of the City relating to the funds included in the accompanying combined financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of the State and Local Governmental Units, and by the Financial Accounting Standards Board (when applicable). As allowed in section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and interpretations, Accounting Principles Board Opinions and Accounting Research bulletins of the committee of Accounting Procedure issued after November, 30, 1989. The more significant accounting policies of the City are described below.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, certain intra-fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presented increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The following are the City's Governmental Fund types:

General Fund-The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Proprietary Fund-Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets.

The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the funds. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary funds:

Electric Fund-The Electric Fund accounts for the activities necessary to provide electric services to the residents of the City. These activities include administration, electric generation, distribution, and transmission system operations and maintenance, new construction, financing and related debt service.

Water-Sewer Fund-The Water-Sewer Fund accounts for the activities necessary to provide water and wastewater services to the residents of the City. These activities include administration, water and wastewater system operations and maintenance, new construction, financing and related debt service.

Sanitation Fund-The Sanitation Fund accounts for the activities necessary to provide solid waste collection for the City. The City contracts with an outside vendor to provide these services.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUDGET

The City Council follows these procedures in establishing the City's budgets:

1. Thirty Six days prior to the beginning of each fiscal year, the City Administrator submits to the City Council a proposed budget for the fiscal year beginning on the following August 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which comments concerning the budget are heard.
3. The budget is legally enacted by the City Council no later than 15 days prior to the beginning of the fiscal year.
4. The City Administrator is authorized to transfer budgeted amounts between the departments within any funds; however any revisions that alter the total expenditures of any fund must be approved by the City Council. The budget was amended during this fiscal year.

INVENTORY

Proprietary fund inventory consists primarily of supplies valued at cost. Cost is determined using a weighted average method. The cost of inventories is recorded as an expense when consumed rather than when purchased.

VACATION AND SICK LEAVE

The City mandates that vacation leave must be used before the end of the calendar year; any unused vacation time is forfeited. Full time employees are granted eighty hours of sick leave per calendar year, and it may accumulate indefinitely. Upon termination or retirement, no unused vacation or accumulated sick leave will be paid. As a result, no liability for vacation or sick leave has been recorded in the applicable funds.

RESTRICTED FUND BALANCES/NET ASSETS

Fund balances have been restricted for police training-these funds were received from a State program and are set aside to fund training for police officers.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY TAXES

Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. Property taxes attach as an enforceable lien on property as of February 1.

The City reports deferred revenue on its General Fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue recognized.

During the year ended July 31, 2008, the City levied an ad valorem tax for maintenance and operations at a rate of .3614 per \$100 of assessed value. A total tax levy of \$108,034 resulted, based on the net taxable valuation of \$33,618,501 for the tax year.

CAPITAL ASSETS

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	20-50 years
Land improvements	20-30 years
Equipment	3-50 years
Water and sewer lines	33-100 years
Streets	20 years

Interest is capitalized on assets, other than infrastructure assets, acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2: CASH

The City maintains cash that is available for use by all funds, except as restricted. Each fund type's portion of these monies is displayed on the fund balance sheets with the description of "cash" under each fund's caption.

DEPOSITS

At July 31, 2008, the carrying amount of the City's deposits was \$1,122,190, and the bank balance was \$1,163,971. The entire bank balance was covered by federal depository insurance and collateral with a fair market value of approximately \$2,500,000, held in safekeeping at Texas Independent Bank for Community Bank of Moulton in the City's name at year-end. The City has a written depository contract.

The City by State law can invest its funds in the following:

1. Obligations of the United States or its agencies and instrumentality's;
2. Direct obligations of the State of Texas or its agencies;
3. Other obligations, the principal of an interest on which are unconditionally guaranteed or insured by the State of Texas or the United States;
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;
5. Certificates of deposit issued by the state of national banks domiciled in the state that are:
 - A. guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or
 - B. secured by obligations of paragraphs 1-4 above and that have a market value of not less than the principal amount of certificates.

NOTE 3: RISK MANAGEMENT

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. During the year ended July 31, 2008, the City purchased commercial insurance to cover general liabilities. There was no significant reductions in coverage, and there were no settlements exceeding insurance coverage.

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: CHANGES IN CAPITAL ASSETS

Primary Government:	<u>Beginning Balance</u>	<u>Additions</u>	(Deletions and <u>Transfers</u>)	<u>Ending Balance</u>
Not depreciable				
Land	\$113,407	\$0	\$0	\$113,407
Construction in progress	45,475	0	(45,475)	0
Depreciable				
Buildings and improvements	375,630	6,333	0	381,963
Machinery and equipment	268,272	11,381	0	279,653
Streets	2,952,328	38,302	45,475	3,036,105
Accumulated depreciation	<u>(3,270,088)</u>	<u>(40,660)</u>	<u>0</u>	<u>(3,310,748)</u>
	<u>\$485,024</u>	<u>\$15,356</u>	<u>\$0</u>	<u>\$500,380</u>
Business-type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	(Deletions and <u>Transfers</u>)	<u>Ending Balance</u>
Not depreciable				
Land	\$10,570	\$0	\$0	\$10,570
Construction in progress	5,000	0	(5,000)	0
Depreciable				
Buildings and improvements	3,716,993	206,800	5,000	3,928,793
Machinery and equipment	3,426,482	121,738	0	3,548,220
Accumulated depreciation	<u>(1,666,546)</u>	<u>(117,500)</u>	<u>0</u>	<u>(1,784,046)</u>
	<u>\$5,492,499</u>	<u>\$211,038</u>	<u>\$0</u>	<u>\$5,703,537</u>

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: LONG-TERM DEBT (BUSINESS-TYPE ACTIVITIES)

USDA RURAL DEVELOPMENT LOAN AND GRANT (CERTIFICATES OF OBLIGATION)

During the fiscal year ended July 31, 2001, the City of Moulton, Texas authorized the issuance of \$281,000 City of Moulton, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2001 and \$229,000 in grant proceeds for funding of water and wastewater improvements through an agreement with USDA Rural Development. This agreement resulted in \$510,000 in total grant and loan proceeds being committed for these improvements. As of July 31, 2003, the Certificates of Obligation has been issued. Interest on the Certificates of Obligation is payable semi-annually on February 1 and August 1. Interest accrues at an annual rate of 4.75%. Principal payments are due annually beginning on August 1, 2003 and continuing until maturity at August 1, 2041. Interest expense incurred during the fiscal year ended July 31, 2008 was \$12,706.

The bond ordinance contains provisions that require the City to maintain a Certificate Fund for the purpose of paying the interest on and to provide for the payment, redemption and retirement of the certificates. The bond ordinance also requires that the City maintain a System Fund to be used for the collection of revenues and payment of expenses in connection with the Water and Sewer System. As of July 31, 2008, the City was in compliance with these requirements.

Annual requirements to retire the \$266,000 City of Moulton, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2001, are as follows:

Year Ended <u>July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$4,000	\$12,540	\$16,540
2010	4,000	12,350	16,350
2011	4,000	12,160	16,160
2012	4,000	11,970	15,970
2013	4,400	11,600	16,000
Thereafter	<u>245,600</u>	<u>206,091</u>	<u>451,691</u>
	<u>\$266,000</u>	<u>\$266,711</u>	<u>\$532,711</u>

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5: LONG-TERM DEBT (BUSINESS-TYPE ACTIVITIES)

LCRA LOAN

During the fiscal year ended July 31, 2005, the City of Moulton, Texas initiated the borrowing of \$1.5 million from Lower Colorado River Authority for use in upgrading the electric power distribution system. Interest on the loan accrues at an annual rate of 4.755%. Payments are due monthly beginning on October 17, 2004 and continuing until maturity at September 17, 2024. While the upgrade is in process, the interest is capitalized as a cost of the capital project. No interest was capitalized during the fiscal year ended July 31, 2008. Annual requirements to retire the \$1.5 million loan payable to LCRA are:

Year Ended <u>July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$55,443	\$60,926	\$116,369
2010	58,138	58,231	116,369
2011	60,963	55,406	116,369
2012	63,926	52,443	116,369
2013	67,369	49,300	116,669
Thereafter	<u>1,000,660</u>	<u>288,803</u>	<u>1,289,463</u>
	<u>\$1,306,499</u>	<u>\$565,109</u>	<u>\$1,871,608</u>

Changes in Long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
LCRA	\$1,359,373	\$0	(\$52,874)	\$1,306,499
Certificates of Obligation	<u>269,000</u>	<u>0</u>	<u>(3,000)</u>	<u>266,000</u>
	<u>\$1,628,373</u>	<u>\$0</u>	<u>(\$55,874)</u>	<u>\$1,572,499</u>

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: TMRS DISCLOSURE

PLAN DESCRIPTION

The City provides pension benefits for all of its full time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

BENEFITS

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of the theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary has always been the average of the salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit rate:	5%
Matching ratio (City to Employee):	1 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the City (expressed as years of service/age) are:
5 years/age 60; 20 years/any age

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: TMRS DISCLOSURE

CONTRIBUTIONS

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

CHANGES

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis.

In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: TMRS DISCLOSURE

CHANGES

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the city's unfunded actuarial accrued liability would have been \$96,276 and the funded ratio would have been 90.7%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009 actuarial valuation.

Schedule of Funding Progress

Actuarial valuation date	12/31/07
Actuarial value of assets	937,799
Actuarial accrued liability	1,113,716
Unfunded/(overfunded) actuarial accrued liability	175,917
Funded ratio	84.2%
Annual covered payroll	326,175
UAAL as a percentage of covered payroll	53.9%

Actuarial Assumptions

Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	30-years closed period
Asset valuation method	Amortized cost
Investment rate of return	7%
Projected salary increases	Varies by age and service
Includes inflation at	3.0%
Cost of living adjustments	2.1% (3% of CPI)
Payroll growth assumption	3%
Withdrawal rates (male/female)	low/low

CITY OF MOULTON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7: CAFETERIA PLAN

The City of Moulton maintains a cafeteria plan under Section 125 of the Internal Revenue Code. The benefits offered are:

- Group medical coverage
- Cancer insurance
- Intensive care insurance
- Accident insurance
- Hospital indemnity insurance
- Specified health event
- Personal sickness indemnity

Employees are eligible to participate after six months of continuous employment.

NOTE 8: HEALTH CARE COVERAGE

During the year ended July 31, 2008, employees of the City were covered by a health insurance plan (the Plan). The City contributed the cost of employee health, life and accidental death and dismemberment and employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to the Texas Municipal League Group Benefits Risk Pool acting on behalf of the self funded pool. The Plan was authorized by Chapter 172 of the Local Government Code, the Texas Political Subdivision Uniform Group Benefits Program.

The Contract between the City and the Texas Municipal League Group Benefits Risk Pool was renewed August 1, 1998, and terms of coverage and contribution costs are included in the contractual provisions.