CITY OF HEREFORD, TEXAS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2014

CITY OF HEREFORD, TEXAS

SEPTEMBER 30, 2014

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FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Commission
City of Hereford, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hereford, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 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 procedure 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hereford, Texas, as of September 30, 2014, 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.

McGinty & Associates, LLP
Certified Public Accountants

205 W. 4th Street, Suite 201
Hereford, Texas 79045
(806) 364-6432

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 34 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 the 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 City of Hereford, Texas' basic financial statements. The combining statements and other supplemental schedules on pages 35 through 43 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These combining statements and other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 statements and other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

McDonald & Associates LLP

Hereford, Texas
February 6, 2015

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government			
	Govern-Mental Activities	Business-Type Activities	Total	Component Unit HEDC
ASSETS				
Cash	$ 101,513	$ 3,202,576	$ 3,304,089	$ 1,059,313
Investments	477,617	2,905,220	3,382,837	2,312,853
Receivables (Net):				
Property Taxes	60,309	-	60,309	-
Accounts	238,507	479,093	717,600	-
Notes	-	-	-	60,000
Other	17,090	1,250	18,340	1,064
Internal Balances	829,836	(829,836)	-	-
Due from Component Unit	13,034	-	13,034	-
Inventories	27,041	133,816	160,857	-
Restricted Assets	-	41,791	41,791	-
Capital Assets:				
Non-Depreciable	699,003	2,387,318	3,086,321	-
Depreciable, Net	6,637,517	10,644,276	17,281,793	18,380
Total Assets	9,101,467	18,965,504	28,066,971	3,451,610
LIABILITIES				
Bank Overdraft	161,180	-	161,180	-
Accounts Payable	440,848	462,552	903,400	111,722
Accrued Liabilities	-	13,556	13,556	-
Deferred Revenue	-	29,579	29,579	-
Due to Primary Government	-	-	-	13,034
Non-Current Liabilities:				
Due Within One Year	150,969	750,000	900,969	-
Due in More Than One Year	215,107	3,048,792	3,263,899	-
Deposits	-	264,093	264,093	-
Total Liabilities	968,104	4,568,572	5,536,676	124,756
NET POSITION				
Net Investment in Capital Assets	6,970,444	9,232,802	16,203,246	18,380
Restricted for:				
Debt Service	-	41,791	41,791	-
Police	9,719	-	9,719	-
Parks	17,726	-	17,726	-
Unrestricted	1,135,474	5,122,339	6,257,813	3,308,474
Total Net Position	$ 8,133,363	$14,396,932	$22,530,295	$ 3,326,854

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES
YEAR ENDED SEPTEMBER 30, 2014

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
FUNCTIONS/PROGRAMS:					
Primary Government:					
Governmental Activities:					
General Government	$ 804,076	$ 325,589	$ -	$ -	$ (478,487)
Public Safety	2,984,554	273,378	2,323	-	(2,708,853)
Streets and Public Works	1,462,831	22,535	-	9,754	(1,430,542)
Sanitation and Health	1,425,636	2,007,416	-	-	581,780
Parks and Recreation	1,744,652	289,759	57,550	-	(1,397,343)
Airport	354,795	216,186	18,852	-	(119,757)
Total Governmental Activities	8,776,544	3,134,863	78,725	9,754	(5,553,202)
Business-Type Activities:					
Water and Sewer Utilities	3,438,486	5,786,703	-	-	2,348,217
Total Business-Type Activities	3,438,486	5,786,703	-	-	2,348,217
Total Primary Government	$12,215,030	$ 8,921,566	$ 78,725	$ 9,754	$(3,204,985)
Component Unit:					
Hereford Economic Development Corp.	$ 444,689	$ -	$ -	$ -	(444,689)
Total Component Units	$ 444,689	$ -	$ -	$ -	$ (444,689)

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES (continued)
YEAR ENDED SEPTEMBER 30, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit HEDC
CHANGE IN NET POSITION:				
Net (Expense) Revenue ...	$(5,553,202)	$ 2,348,217	$(3,204,985)	$ (444,689)
General Revenues:				
Taxes:				
Property Taxes	1,703,721	-	1,703,721	-
Sales Taxes	1,454,544	-	1,454,544	723,641
Franchise Taxes	1,081,674	-	1,081,674	-
Motel Occupancy Taxes .	179,656	-	179,656	-
Lease Income	-	89,809	89,809	-
Interest Income	2,263	10,583	12,846	8,085
Miscellaneous	38,201	-	38,201	-
Sale of Assets	-	(2,009)	(2,009)	-
Transfers.....	1,251,955	(1,251,955)	-	-
Total General Revenues and Transfers	5,712,014	(1,153,572)	4,558,442	731,726
Change in Net Position	158,812	1,194,645	1,353,457	287,037
Net Position - Beginning	7,974,551	13,202,287	21,176,838	3,039,817
Net Position - Ending	$ 8,133,363	$14,396,932	$22,530,295	$ 3,326,854

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash	$ 46,269	$ 55,244	$ 101,513
Investments	477,617	-	477,617
Receivables (Net):			
Property Taxes	60,309	-	60,309
Accounts	238,507	-	238,507
Other	17,090	-	17,090
Due from Other Funds	866,856	-	866,856
Due from Component Unit	13,034	-	13,034
Inventories	27,041	-	27,041
Total Assets	$1,746,723	$ 55,244	$1,801,967
LIABILITIES			
Bank Overdraft	$ 161,180	$ -	$ 161,180
Accounts Payable	440,350	498	440,848
Due to Other Funds	-	37,020	37,020
Total Liabilities	601,530	37,518	639,048
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Tax Revenue	47,726	-	47,726
Total Deferred Inflows of Resources	47,726	-	47,726
FUND BALANCES			
Nonspendable:			
Inventories	27,041	-	27,041
Restricted for:			
Police	9,719	-	9,719
Parks	-	17,726	17,726
Unassigned	1,060,707	-	1,060,707
Total Fund Balances	1,097,467	17,726	1,115,193
Total Liabilities and Fund Balances	$1,746,723	$ 55,244	$1,801,967

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2014

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION:

Total Fund Balance - Total Governmental Funds	$1,115,193
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of $18,843,483, net of accumulated depreciation of $11,506,963 are not financial resources and, therefore, are not reported in the funds	7,336,520
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are unavailable in the funds	47,726
Long-term liabilities of $366,076 are not due and payable in the current period and are not reported in the funds	(366,076)
Net Position of Governmental Activities	$8,133,363

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Other Governmental Funds	Total
REVENUES:			
Property Taxes	$1,703,321	$ -	$1,703,321
Sales Taxes	1,454,544	-	1,454,544
Franchise Taxes	1,081,674	-	1,081,674
Motel Occupancy Taxes	179,656	-	179,656
Charges for Services	3,134,863	-	3,134,863
Grant Revenue	21,175	9,754	30,929
Interest Income	2,246	17	2,263
Contributions	17,019	40,531	57,550
Miscellaneous Revenue	38,201	-	38,201
	7,632,699	50,302	7,683,001
EXPENDITURES:			
Current:			
General Government	772,348	-	772,348
Public Safety	2,745,111	-	2,745,111
Streets and Public Works	1,281,545	-	1,281,545
Sanitation and Health	1,425,072	-	1,425,072
Parks and Recreation	1,501,181	11,433	1,512,614
Airport	302,251	-	302,251
Capital Outlays	598,302	34,865	633,167
Debt Service:			
Principal Retirement	262,616	-	262,616
Interest Charges	11,772	-	11,772
	8,900,198	46,298	8,946,496
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,267,499)	4,004	(1,263,495)
OTHER FINANCING SOURCES (USES):			
Transfers In	1,250,000	1,955	1,251,955
Loan Proceeds	164,384	-	164,384
Transfers Out	-	-	-
	1,414,384	1,955	1,416,339
NET CHANGE IN FUND BALANCES	146,885	5,959	152,844
FUND BALANCES:			
Beginning of Year	950,582	11,767	962,349
End of Year	$1,097,467	$ 17,726	$1,115,193

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (continued)
YEAR ENDED SEPTEMBER 30, 2014

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

Net Change in Fund Balances - Total Governmental Funds	$ 152,844
Amounts reported for governmental activities in the statement of activities are different because:	
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:	
Capital Outlays	633,167
Depreciation Expense	(725,831)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in unavailable deferred property tax revenue	400
The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:	
Loan Proceeds	(164,384)
Debt Repayments	262,616
Change in Net Position of Governmental Activities	$ 158,812

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2014

CURRENT ASSETS	
Cash	$ 3,202,576
Investments	2,905,220
Receivables (Net):	
Accounts	479,093
Other	1,250
Inventories	133,816
	6,721,955
NONCURRENT ASSETS	
Restricted Assets	41,791
Capital Assets:	
Non-Depreciable	2,387,318
Depreciable, Net	10,644,276
	13,073,385
Total Assets	19,795,340
CURRENT LIABILITIES	
Accounts Payable	462,552
Accrued Liabilities	13,556
Due to Other Funds	829,836
Deferred Revenue	29,579
Long-Term Debt, Amounts Due Within One Year	750,000
	2,085,523
NONCURRENT LIABILITIES	
Long-Term Debt, Amounts Due in More Than One Year	3,048,792
Deposits	264,093
	3,312,885
Total Liabilities	5,398,408
NET POSITION	
Net Investment in Capital Assets	9,232,802
Restricted for Debt Service	41,791
Unrestricted	5,122,339
Total Net Position	$14,396,932

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2014

OPERATING REVENUES:	
Water Billings	$ 4,183,037
Sewer Billings	1,427,324
Penalties	164,715
Service Taps	9,404
Miscellaneous	2,223
	5,786,703
OPERATING EXPENSES:	
Personnel Cost	1,134,518
Depreciation and Amortization	667,541
Heat, Light and Power	652,883
Repairs and Maintenance	438,392
Supplies and Chemicals	165,735
Insurance	157,423
Fuel	54,701
Water Purchases	38,311
Dues and Fees	21,180
Telephone	17,216
Lab Expense	9,235
Travel	7,368
Miscellaneous	6,246
Uniforms	5,143
Property Taxes	4,743
Rents	2,448
	3,383,083
Income from Operations	2,403,620
NONOPERATING REVENUES (EXPENSES):	
Lease Income	89,809
Interest Income	10,583
Sale of Assets	(2,009)
Interest and Fiscal Charges	(55,403)
	42,980
Income Before Transfers	2,446,600
Transfers Out	(1,251,955)
CHANGE IN NET POSITION	1,194,645
Net Position - Beginning	13,202,287
Net Position - Ending	$14,396,932

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	$5,857,119
Other Operating Receipts	2,223
Cash Paid to Suppliers for Goods and Services	(1,825,527)
Cash Payments to Employees for Services	(956,381)
Net Cash Provided by (Used for) Operations	3,077,434
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Rents Received	88,559
Transfers from Reserve Funds	504,690
Transfers to Other Funds	(529,040)
Transfers to Reserve Funds	(1,251,955)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,187,746)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Note Payable	1,600,000
Proceeds from Sale of Capital Assets	9,116
Acquisition and Construction of Capital Assets	(1,890,411)
Principal Paid on Bond Maturities	(425,000)
Interest and Fees Paid on Long-Term Debt	(81,180)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(787,475)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	10,508
Purchase of Certificates of Deposit	(1,602,027)
Net Cash Provided by (Used for) Investing Activities	(1,591,519)
NET INCREASE (DECREASE) IN CASH	(489,306)
Cash, Beginning of Year	3,691,882
Cash, End of Year	$3,202,576

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2014

RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED FOR) OPERATIONS:

Income (Loss) from Operations	$2,403,620
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Depreciation	667,541
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	66,909
(Increase) Decrease in Inventory	34,192
Increase (Decrease) in Water Deposits	5,729
Increase (Decrease) in Accounts Payable	(102,569)
Increase (Decrease) in Accrued Property Taxes	2,012
Net Cash Provided by (Used for) Operations	$3,077,434

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2014

	Employee Retirement Fund
ASSETS	
Cash	$ 6,444
Deferred Compensation Plan Assets	131,188
	137,632
LIABILITIES	
Due to General Fund	6,444
NET POSITION	
Held in Trust for Employee Retirement	$ 131,188

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2014

	Employee Retirement Fund
ADDITIONS	
Employee Contributions	$ 3,456
Investment Income	6,812
Total Additions	10,268
DEDUCTIONS	
Benefits	8,479
Administrative Expenses	676
Total Deductions	9,155
Change in Net Position	1,113
Net Position - Beginning	130,075
Net Position - Ending	$ 131,188

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
The City of Hereford operates under a Council-Manager form of government and provides the following services: public safety, streets, sanitation and health, culture and recreation, public improvements, planning and zoning, airport operations, water and sewer utilities, and general administrative service. The following is a summary of the more significant policies:

A. The Reporting Entity:
The accompanying financial statements present the City's primary government and the component unit, Hereford Economic Development Corporation (HEDC), over which the City exercises significant influence. Significant influence or accountability is based on operational or financial relationships with the City (as distinct from legal relationships). The HEDC was incorporated in 1994 for the purpose of providing economic assistance to businesses located in or relocating to the City of Hereford and the surrounding area. Separate financial statements for the HEDC are not issued.

B. Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns with composite columns for non-major funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:
The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued):

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

D. Fund Types and Major Funds:

The City considers its General Fund and its Water and Sewer Fund to be major funds.

General Fund:
The General Fund is the primary fund of the City. It is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds:
Special Revenue Funds are used to account for the proceeds of specific resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds:
Capital Project Funds account for financial resources to be used for the acquisition and construction of major capital facilities, which are not financed by the Water and Sewer Fund.

Water and Sewer Fund:
The Water and Sewer Fund is used to account for operations of the utility system, which is financed and operated in a manner similar to private business enterprises. For the purpose of its statement of cash flows, the City considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Fiduciary Funds (not included in government-wide statements):
Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, or other funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. Capital Assets and Depreciation:

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, except for street paving, curbs and gutters. The City is not required to retroactively capitalize infrastructure and has not done so for governmental funds infrastructure. The City, however, will prospectively capitalize all infrastructure. The City's property, plant, equipment, and infrastructure are comprehensively reported in the government-wide statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets, including those of the component unit, are depreciated using the straight-line method over the estimated useful lives of the assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the operations.

Estimated useful lives are as follows:

Buildings	40 Years
Improvements, Other than Buildings	10-40 Years
Machinery and Equipment	5-20 Years

F. Long-Term Debt:

In the government-wide and proprietary fund financial statements, outstanding debts are reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and repayments of debt as expenditures of the current period.

G. Use of Estimates:

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

H. Inventories:

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. Date of Management's Review:

Management has evaluated subsequent events through February 6, 2015, the date the financial statements were available to be issued.

J. Proprietary Fund Revenues and Expenses:

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges for water and sewer services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

K. Restricted Resources:

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

L. FUND EQUITY:

In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

1) Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.

2) Restricted net position consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through enabling legislation.

3) Unrestricted net position consists of all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

In the governmental funds financial statements, equity is classified as fund balance. Fund balance is further classified as follows:

1) Nonspendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

2) Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to enabling legislation.

3) Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. The City Council is the highest level of decision making authority that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action by the City Council is taken to remove or revise the limitation.

4) Assigned includes fund balance amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the City Council. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.

5) Unassigned includes the residual balance of the General Fund that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

NOTE 2 - BUDGETS AND ACCOUNTABILITY:
The City Manager submits an annual budget in accordance with applicable state laws and regulations. The budget is presented to the City Commission for review, and public hearings are held to address priorities and the allocation of resources. Before the start of the next fiscal year, the City Commission adopts the budget for City operating funds. Once approved, the City Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 3 - RESTRICTED ASSETS:
The Water and Sewer Fund has $41,791 in cash, which is restricted for debt service of bonds payable in accordance with bond ordinances.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE:
Significant receivables include amounts due from customers primarily for utility services and trash collection, and amounts due from property taxes receivable. Allowances for non-collectible accounts have been recorded based on the estimated amount of uncollectible accounts. The allowance in the general fund is $16,433 and the allowance in the Water and Sewer Fund is $20,622.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

In the governmental fund financial statements, property taxes receivable are recorded at the total amount of delinquent taxes owed at the fiscal year end. If delinquent taxes are not paid within 60 days of the fiscal year end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when the cash is received. Over time, substantially all property taxes are collected.

NOTE 5 - NOTES RECEIVABLE:
Notes receivable in the component unit, Hereford Economic Development Corporation, consist of the following:

Note receivable from Premiere Cinema Corp. in the original amount of $75,000 to be forgiven at the rate of $15,000 per year, with no interest, each year Premiere Cinema Corp. maintains commercial operations, beginning August 31, 2014 and ending August 31, 2019, unsecured	$60,000

NOTE 6 - COMMITMENTS:
The City has been approved for a community development block grant for the construction of water system improvements. The total budgeted cost of the project is $330,005. Included in the total is the City's commitment for matching funds in the amount of $55,005. The City will provide the matching funds from its Water and Sewer Fund.

NOTE 7 - LONG-TERM DEBT:

Long-term debt of the Governmental Funds as of September 30, 2014, consists of the following:

	Balance 9-30-13	Increases	Decreases	Balance 9-30-14	Due Within One Year
First Financial Bank, monthly payments of $6,363, including interest at 3.00%, through February 2015, secured by compactor	$105,624	$ -	$(74,153)	$ 31,471	$ 31,471
First Financial Bank, monthly payments of $2,225, including interest at 2.90%, through June 2015, secured by golf carts	51,756	-	(51,756)	-	-
First Financial Bank, monthly payments of $2,903, including interest at 2.25%, through December 2018, secured by golf carts	-	164,384	(26,052)	138,332	32,052
First Financial Bank, monthly payments of $3,680, including interest at 2.65%, through April 2014, secured by loader	25,458	-	(25,458)	-	-
First Financial Bank, monthly payments of $3,736, including interest at 2.50%, through July 2016, secured by golf course equipment	122,404	-	(42,198)	80,206	43,325
First Financial Bank, monthly payments of $3,869, including interest at 2.40%, through April 2017, secured by street sweeper	159,066	-	(42,999)	116,067	44,121
	$464,308	$164,384	$(262,616)	$366,076	$150,969

Future maturities of long-term debt of the Governmental Funds are as follows:

Year Ending September 30,	Principal	Interest	Totals
2015	$150,969	$ 6,833	$157,802
2016	114,673	3,710	118,383
2017	59,546	1,535	61,081
2018	33,537	576	34,113
2019	7,351	25	7,376
	$366,076	$ 12,679	$378,755

NOTE 7 - LONG-TERM DEBT (continued):
Long-term debt of the Water and Sewer Fund as of September 30, 2014, consists of the following:

	Balance 9-30-13	Increases	Decreases	Balance 9-30-14	Due Within One Year
First Financial Bank, annual payments of $320,000, plus interest at 1.84%, through August 2019, secured by certificates of deposit	$ -	$1,600,000	$ -	$1,600,000	$ 320,000
Water and Sewer 2010 series general obligation refunding bonds, dated Oct. 1, 2010, due in annual installments through Sep. 1, 2020, bearing interest rates of 2.00% to 4.00%	1,660,000	-	(210,000)	1,450,000	215,000
Water and Sewer 2010 series combination tax and revenue certificates of obligation, dated Oct. 1, 2010, due in annual installments through Sep. 1, 2017, bearing interest rates of 2.00% to 3.00%	880,000	-	(215,000)	665,000	215,000
	2,540,000	1,600,000	(425,000)	3,715,000	$ 750,000
Plus unamortized premium on 2010 bonds and certificates	111,830	-	(28,038)	83,792	
	$2,651,830	$1,600,000	$ (453,038)	$3,798,792	

Future maturities of long-term debt of the Water and Sewer Fund are as follows:

Year Ending September 30,	Principal	Interest	Totals
2015	$ 750,000	$ 99,553	$ 849,553
2016	765,000	82,179	847,179
2017	785,000	62,859	847,859
2018	565,000	42,940	607,940
2019	580,000	27,170	607,170
2020	270,000	10,800	280,800
	$3,715,000	$ 325,501	$4,040,501

Revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The City is in compliance with all significant bond indentures and restrictions.

NOTE 8 - COMPENSATED ABSENCES:
Employees of the City of Hereford are entitled to paid vacation days and paid sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the policy of the City to recognize the costs of compensated absences when actually paid to employees.

NOTE 9 - CITY FARM LEASE:
The City owns farm land near its wastewater treatment facility and leases this land to an individual for agricultural purposes. The lease term is for one year beginning January 1, 2014, with an annual rental of $62,500.

NOTE 10 - WATER TOWER LEASE:
The City leases space on one of its water towers to a company for the operation of communications equipment. The initial term of the lease was for a period of ten years, beginning April 2001, with the lessee having the option to renew the lease for four additional periods of five years each. The annual lease is currently $11,109, and the annual lease will be increased by 15% for each renewal period. The lessee may terminate this agreement upon thirty days prior written notice. The City also leases space on one of its water towers to other companies for the operation of communications equipment on a monthly lease for $1,250 per month.

NOTE 11 - RISK MANAGEMENT:
The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and other claims of various natures. The City purchases insurance from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to indemnify it in the event of loss. The City pays annual premiums for such coverage. TML-IRP purchases re-insurance, and the City does not retain risk of loss exceeding deductibles. The City has had no significant reduction in insurance coverage from the previous year and claims have not exceeded coverage in the last three years.

NOTE 12 - DEFERRED INFLOWS OF RESOURCES:
In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable property tax revenue*, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 13 - DEPOSITS AND INVESTMENTS:

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The City's cash deposits at September 30, 2014, were entirely covered by FDIC insurance and pledged collateral held by the agent bank.

Investments

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) local government investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2014, are shown as follows:

Type of Security	Fair Value	Percentage of Total	Credit Rating	Investment Maturity
Primary Government:				
Certificates of Deposit	$3,382,837	100.00%	N/A	Less than one year
Component Unit:				
Certificates of Deposit	$2,312,853	100.00%	N/A	Less than one year

NOTE 13 - DEPOSITS AND INVESTMENTS (continued):

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk. At September 30, 2014, the City's investments are rated as to credit quality as shown above.

b. Custodial Credit Risk
Deposits are exposed to custodial credit risk if they are not covered by deposit insurance plus the amount of the pledged surety bond. At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk
This risk is the risk of loss attributed to the magnitude of a government's investment in a single user. At year end, the City's exposure to concentration of credit risk is shown above as the percentage of each investment type.

d. Interest Rate Risk
This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City's exposure to interest rate risk is summarized in the above table. Since the investment is a zero coupon bond, the rate of return is guaranteed and the City is not exposed to any interest rate risk.

e. Foreign Currency Risk
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing or the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

NOTE 14 - CAPITAL ASSETS:
Following is a summary of the capital asset activity for the year ended September 30, 2014:

	Beginning Of Year	Additions	Retirements	End Of Year
Primary Government:				
Governmental Activities:				
Non-Depreciable Assets:				
Land	$ 619,289	$ -	$ -	$ 619,289
Construction in Progress	-	79,714	-	79,714
Depreciable Assets:				
Buildings	2,849,817	-	-	2,849,817
Improvements	6,805,033	44,641	-	6,849,674
Machinery & Equipment	8,044,930	559,859	(159,800)	8,444,989
	18,319,069	684,214	(159,800)	18,843,483
Accumulated Depreciation	10,889,885	725,831	(108,753)	11,506,963
Governmental Activities Net Capital Assets	$ 7,429,184	$ (41,617)	$ (51,047)	$ 7,336,520
Business-Type Activities:				
Non-Depreciable Assets:				
Land	$ 712,120	$ 1,600,000	$ (11,125)	$ 2,300,995
Construction in Progress	25,178	61,145	-	86,323
Depreciable Assets:				
Buildings	808,840	-	-	808,840
Water and Sewer System	20,586,687	388,943	-	20,975,630
Machinery & Equipment	1,735,193	137,511	-	1,872,704
	23,868,018	2,187,599	(11,125)	26,044,492
Accumulated Depreciation	12,345,357	667,541	-	13,012,898
Business-Type Activities Net Capital Assets	$11,522,661	$ 1,520,058	$ (11,125)	$13,031,594
Primary Government Net Capital Assets	$18,951,845	$ 1,478,441	$ (62,172)	$20,368,114
Component Unit:				
Hereford Economic Development Corp:				
Depreciable Assets:				
Furniture & Equipment	$ 40,061	$ -	$ -	$ 40,061
	40,061	-	-	40,061
Accumulated Depreciation	19,007	2,674	-	21,681
Component Units Net Capital Assets	$ 21,054	$ (2,674)	$ -	$ 18,380

NOTE 14 - CAPITAL ASSETS (continued):
Depreciation expense was charged to governmental functions as follows:

General Government	$ 31,728
Public Safety	239,443
Streets and Public Works ..	175,362
Sanitation and Health	564
Parks and Recreation	226,190
Airport	52,544
	$725,831

NOTE 15 - DEFERRED COMPENSATION PLAN:
The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. PEBSCO is the independent plan administrator. Employees who choose to participate may elect the amount of their contributions, within legal limits, and defer federal income taxation on that portion of their salaries and the earnings thereon. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the terms of IRC Section 457, the employee's contributions and all income attributable to the investment of such amounts are the property of the City until paid or made available to the participants or their beneficiaries. The plan assets represent a general liability of the City to its employees whose rights to the fair market value of their participant shares are equal to the rights of other general creditors.

It is the City's opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 16 -- INTERNAL BALANCES AND TRANSFERS:
Internal balances result from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There are no interfund balances that are not expected to be repaid by September 30, 2015. Following is a summary of interfund balances:

	Due From:			
	General Fund	Other Gov't Funds	Water & Sewer Fund	Total
Due To:				
General Fund	$ -	$ 37,020	$829,836	$866,856
Other Gov't Funds	-	-	-	-
Water and Sewer Fund	-	-	-	-
	$ -	$ 37,020	$829,836	$866,856

The City makes transfers from the Water and Sewer Fund to the General Fund to subsidize expenses of the General Fund when considered necessary by city management. During the year the City transferred $1,250,000 from the Water and Sewer Fund to the General Fund. The City also transferred $1,955 from its Water and Sewer Fund to its Capital Projects Fund for part of its matching requirement on a water facility improvement grant.

NOTE 17 - EMPLOYEE RETIREMENT PLAN:

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	Plan Year 2013	Plan Year 2014
Employee Deposit Rate	5.0%	5.0%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5,0/25	60/5,0/25
Updated Service Credits	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI	70% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which 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 that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employee 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., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

NOTE 17 - EMPLOYEE RETIREMENT PLAN (continued):

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits. Following is a summary of actuarial liabilities and funding progress for the last three actuarial valuations:

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Value of Assets	$12,428,677	$13,181,021	$14,198,347
Actuarial Accrued Liability	14,760,403	15,200,300	17,135,157
Percentage Funded	84.20%	86.72%	82.86%
Unfunded Actuarial Accrued Liability (UAAL)	2,331,726	2,019,279	2,936,810
Annual Covered Payroll	4,001,749	4,043,991	4,250,742
UAAL as a Percentage of Covered Payroll	58.27%	49.93%	69.09%
Net Pension Obligation (NPO), Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	444,885	470,580	472,049
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	444,885	470,580	472,049
Contributions Made	444,855	470,580	472,049
Increase in NPO	-	-	-
NPO, End of Period	$ -	$ -	$ -

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012, actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.2 Years; Closed Period	25.3 Years; Closed Period	24.0 Years; Closed Period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10-Year Smooth Market	10-Year Smooth Market	10-Year Smooth Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.10%	2.10%	2.10%

NOTE 17 - EMPLOYEE RETIREMENT PLAN (continued):

Supplemental Death Benefits Plan

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2012, 2013 and 2014 were $7,260, $7,568 and $7,708, respectively, which equaled the required contribution each year.

SUPPLEMENTAL INFORMATION SECTION

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual	Variance Over
	Original	Final	Amounts	(Under)
REVENUES:				
Property Taxes	$1,663,500	$1,663,500	$1,703,321	$ 39,821
Sales Taxes	1,370,000	1,370,000	1,454,544	84,544
Franchise Taxes	997,357	997,357	1,081,674	84,317
Motel Occupancy Taxes	150,000	150,000	179,656	29,656
Charges for Services	3,157,422	3,157,422	3,134,863	(22,559)
Grant Revenue	3,000	3,000	21,175	18,175
Interest Income	1,500	1,500	2,246	746
Contributions	12,000	12,000	17,019	5,019
Miscellaneous Revenue	24,800	24,800	38,201	13,401
	7,379,579	7,379,579	7,632,699	253,120
EXPENDITURES:				
Current:				
General Government	866,972	866,972	772,348	(94,624)
Public Safety	2,827,546	2,827,546	2,745,111	(82,435)
Streets and Public Works	1,213,881	1,213,881	1,281,545	67,664
Sanitation and Health	1,293,084	1,293,084	1,425,072	131,988
Parks and Recreation	1,325,750	1,325,750	1,501,181	175,431
Airport	357,675	357,675	302,251	(55,424)
Capital Outlays	522,750	522,750	598,302	75,552
Debt Service:				
Principal Retirement	235,450	235,450	262,616	27,166
Interest Charges	15,900	15,900	11,772	(4,128)
	8,659,008	8,659,008	8,900,198	241,190
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,279,429)	(1,279,429)	(1,267,499)	11,930
OTHER FINANCING SOURCES (USES):				
Transfers In	1,279,500	1,279,500	1,250,000	(29,500)
Loan Proceeds	-	-	164,384	164,384
Transfers Out	-	-	-	-
	1,279,500	1,279,500	1,414,384	134,884
NET CHANGE IN FUND BALANCES	71	71	146,885	146,814
FUND BALANCES:				
Beginning of Year	950,582	950,582	950,582	-
End of Year	$ 950,653	$ 950,653	$1,097,467	$ 146,814

CITY OF HEREFORD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ -	$ 55,240	$ 4	$ 55,244
Due from Other Funds	-	-	-	-
Restricted Assets	-	-	-	-
Total Assets	$ -	$ 55,240	$ 4	$ 55,244
LIABILITIES				
Accounts Payable	$ -	$ 494	$ 4	$ 498
Due to Other Funds	-	37,020	-	37,020
Total Liabilities	-	37,514	4	37,518
FUND BALANCES				
Restricted for Parks	-	17,726	-	17,726
Restricted for Police	-	-	-	-
Total Fund Balances	-	17,726	-	17,726
Total Liabilities and Fund Balances	$ -	$ 55,240	$ 4	$ 55,244

CITY OF HEREFORD, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
REVENUES:				
Grant Revenue	$ -	$ -	$ 9,754	$ 9,754
Interest Income	-	17	-	17
Contributions	-	40,531	-	40,531
	-	40,548	9,754	50,302
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Parks and Recreations	-	11,433	-	11,433
Capital Outlays	-	23,156	11,709	34,865
	-	34,589	11,709	46,298
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	5,959	(1,955)	4,004
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	1,955	1,955
NET CHANGE IN FUND BALANCES	-	5,959	-	5,959
FUND BALANCES:				
Beginning of Year	-	11,767	-	11,767
End of Year	$ -	$ 17,726	$ -	$ 17,726

CITY OF HEREFORD, TEXAS

SCHEDULE OF VALUATION AND GENERAL OBLIGATION DEBT HISTORY
LAST FIVE YEARS

Fiscal Year Ended 9/30	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year[3]	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2010	15,370	488,190,882	31,763	1,485,000	0.30%	97
2011	15,370	492,707,876	32,056	4,300,000	0.87%	280
2012	15,370	513,310,637	33,397	3,330,000	0.65%	217
2013	15,370	512,579,710	33,349	2,540,000	0.50%	165
2014	15,370	533,178,474	34,690	2,115,000	0.40%	138

(1) Source: 2000 U.S. Census, 2010 U.S. Census.
(2) As reported by the Deaf Smith County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Does not include self-supporting debt.

CITY OF HEREFORD, TEXAS

SCHEDULE OF TAX RATE, LEVY AND COLLECTION HISTORY
LAST FIVE YEARS

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2010	0.339000	0.339000	-	1,654,967	97.87%	100.15%
2011	0.338200	0.338200	-	1,656,222	97.99%	99.77%
2012	0.323308	0.323308	-	1,659,100	97.80%	99.44%
2013	0.326700	0.326700	-	1,656,213	98.34%	97.84%
2014	0.320900	0.320900	-	1,686,515	98.28%	99.20%

CITY OF HEREFORD, TEXAS

SCHEDULE OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS SEPTEMBER 30, 2014

Fiscal Year Ended 9/30	The Certificates			% of Principal Retired
	Principal	Interest	Total	
2015	430,000	69,050	499,050	63.29%
2016	445,000	58,300	503,300	72.98%
2017	465,000	44,950	509,950	83.12%
2018	245,000	31,000	276,000	88.45%
2019	260,000	21,200	281,200	94.12%
2020	270,000	10,800	280,800	100.00%
	$ 2,115,000	$ 235,300	$ 2,350,300	

CITY OF HEREFORD, TEXAS

SCHEDULE OF OTHER GENERAL DEBT OBLIGATIONS
SEPTEMBER 30, 2014

Authorized But Unissued General Obligation Bonds - None.

As of September 30, 2014, the City of Hereford owed $366,076 to First Financial Bank for financed golf carts, a financed landfill compactor, a financed street sweeper, and financed golf course equipment. The City makes monthly payments of $16,871 including interest on these notes. As of September 30, 2014, the City of Hereford also owed $1,600,000 to First Financial Bank for financed land. The City of Hereford makes annual payments of $320,000 plus interest on this note. For additional information on these notes payable, please refer to Note 7 - Long-Term Debt on page 23 in the "Notes to Financial Statements."

CITY OF HEREFORD, TEXAS

GENERAL FUND REVENUES AND EXPENDITURES HISTORY
LAST FIVE YEARS

	Fiscal Year Ended September 30,				
Revenues:	2014	2013	2012	2011	2010
Taxes -- Property	$ 1,703,321	$ 1,593,600	$ 1,678,311	$ 1,684,282	$ 1,680,059
Taxes -- Sales and Occupancy	1,634,200	1,534,753	1,517,507	1,426,268	1,320,763
Charges for Services	3,134,863	3,045,105	3,193,523	3,119,151	2,871,517
Franchise Taxes	1,081,674	981,116	1,024,363	993,957	963,503
Miscellaneous	38,201	49,644	28,306	143,789	16,100
Grant Income	21,175	9,000	38,698	29,506	14,123
Contributions	17,019	555,288	432,446	9,942	10,374
Investment Income	2,246	1,915	2,316	2,060	6,216
Total Revenues	7,632,699	7,770,421	7,915,470	7,408,955	6,882,655
Expenditures:					
General Government	772,348	791,666	707,406	818,708	716,278
Public Safety	2,745,111	2,823,170	2,702,124	2,555,220	2,253,715
Streets and Public Works	1,281,545	1,289,227	1,219,748	1,074,120	1,177,898
Sanitation and Health	1,425,072	1,327,049	1,303,615	1,328,090	1,198,088
Parks and Recreation	1,501,181	1,321,039	1,440,122	1,268,486	1,270,904
Airport	302,251	347,237	376,057	336,460	242,198
Capital Outlays	598,302	1,316,565	1,321,016	765,022	708,118
Debt Service:					
Principal Retirement	262,616	222,776	214,501	165,592	152,564
Interest and Fiscal Charges	11,772	14,838	18,692	15,972	11,975
Total Expenditures	8,900,198	9,453,567	9,303,281	8,327,670	7,731,738
Excess (Deficit) of Revenues Over Expenditures	(1,267,499)	(1,683,146)	(1,387,811)	(918,715)	(849,083)
Other Financing Sources (Uses):					
Operating Transfers In	1,250,000	1,535,000	1,200,000	600,000	300,000
Sale of General Fixed Assets	-	-	-	67,010	-
Loan Proceeds	164,384	-	218,175	337,191	477,709
Operating Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	1,414,384	1,535,000	1,418,175	1,004,201	777,709
Net Change in Fund Balances	146,885	(148,146)	30,364	85,486	(71,374)
Fund Balances:					
Beginning of Year	950,582	1,098,728	1,068,364	982,878	1,054,252
End of Year	$ 1,097,467	$ 950,582	$ 1,098,728	$ 1,068,364	$ 982,878

CITY OF HEREFORD, TEXAS

SCHEDULE OF CURRENT INVESTMENTS
SEPTEMBER 30, 2014

As of September 30, 2014, the City's investable funds were invested in the following categories:

Type of Investment	Market Value	Maturity
Certificates of Deposit	$ 3,382,837	30 Days
Total	$ 3,382,837	

As of such date, 100% of the City's investment portfolio will mature within 30 days.

CITY OF HEREFORD, TEXAS

WATER AND SEWER FUND CONDENSED STATEMENT OF OPERATIONS
LAST FIVE YEARS

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
OPERATING REVENUES:					
Water Billings	$ 4,183,037	$ 4,338,873	$ 4,346,250	$ 3,904,272	$ 3,229,345
Sewer Billings	1,427,324	1,227,195	1,218,209	1,162,851	1,146,872
Penalties	164,715	141,272	139,767	141,800	142,547
Miscellaneous	2,223	3,925	3,057	4,108	2,537
Service Taps	9,404	8,200	8,968	6,180	2,700
Total Operating Revenues	5,786,703	5,719,465	5,716,251	5,219,211	4,524,001
OPERATING EXPENSES:					
Personnel Cost	1,134,518	1,088,913	1,094,929	1,118,128	1,060,781
Depreciation and Amortization	667,541	641,957	613,226	622,349	536,394
Heat, Light and Power	652,883	624,771	640,861	551,205	493,566
Maintenance	438,392	454,515	449,367	421,769	322,979
Insurance	157,423	132,387	133,889	118,527	111,292
Supplies and Chemicals	165,735	125,089	119,492	106,311	98,149
Telephone	17,216	14,960	16,561	19,407	63,593
Water Purchases	38,311	50,626	41,395	30,255	20,118
Fuel	54,701	56,451	56,531	53,739	38,142
Dues and Fees	21,180	27,576	25,021	19,090	17,422
Miscellaneous	6,246	5,681	5,600	5,600	5,600
Uniforms	5,143	5,953	5,813	4,957	5,461
Travel	7,368	3,134	4,490	5,516	4,919
Rent	2,448	2,448	1,836	2,748	2,748
Property Taxes	4,743	3,519	3,595	3,776	5,701
Lab Expense	9,235	7,480	4,227	12,779	3,987
Total Operating Expenditures	3,383,083	3,245,460	3,216,833	3,096,156	2,790,852
Income from Operations	2,403,620	2,474,005	2,499,418	2,123,055	1,733,149
NON-OPERATING REVENUES (EXPENSES):					
Investment Income	10,583	9,305	8,920	9,969	17,556
Lease Income	89,809	89,809	88,809	86,584	77,818
Gain (Loss) on Sale of Fixed Assets	(2,009)	-	-	-	-
Interest and Fiscal Charges	(55,403)	(64,789)	(82,290)	(211,190)	(223,190)
Total Non-Operating Revenues (Expenses)	42,980	34,325	15,439	(114,637)	(127,816)
Income Before Transfers & Capital Contributions	2,446,600	2,508,330	2,514,857	2,008,418	1,605,333
Transfers In	-	-	382,839	-	-
Transfers Out	(1,251,955)	(1,535,000)	(1,301,881)	(630,958)	(300,000)
CHANGE IN NET POSITION	1,194,645	973,330	1,595,815	1,377,460	1,305,333
Net Position - Beginning	13,202,287	12,339,057	10,743,242	9,365,782	8,060,449
Prior Period Adjustment	-	(110,100)	-	-	-
Net Position - Ending	$ 14,396,932	$ 13,202,287	$ 12,339,057	$ 10,743,242	$ 9,365,782