CITY OF HEREFORD, TEXAS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2012

CITY OF HEREFORD, TEXAS

SEPTEMBER 30, 2012

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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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 33 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.

McGinty & Associates, LLP
Certified Public Accountants

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hereford, Texas financial statements as a whole. The combining statements and other supplemental schedules on pages 34 through 42 are presented for purposes of additional analysis and are not a required part of the 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 20, 2013

CITY OF HEREFORD, TEXAS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			
	Govern-Mental Activities	Business-Type Activities	Total	Component Unit HEDC
ASSETS				
Cash	$ 34,877	$ 4,066,070	$ 4,100,947	$ 797,690
Investments	474,800	1,301,173	1,775,973	2,300,938
Receivables (Net):				
Property Taxes	69,191	-	69,191	-
Accounts	187,347	533,844	721,191	-
Other	25,785	132	25,917	1,157
Internal Balances	951,770	(951,770)	-	-
Due from Component Unit	7,986	-	7,986	-
Inventories	39,045	161,842	200,887	-
Restricted Assets	2,350	17,694	20,044	-
Deferred Charges	-	110,100	110,100	-
Capital Assets:				
Non-Depreciable	1,370,510	877,119	2,247,629	-
Depreciable, Net	5,405,036	10,149,575	15,554,611	1,347
Total Assets	8,568,697	16,265,779	24,834,476	3,101,132
LIABILITIES				
Bank Overdraft	41,225	-	41,225	-
Accounts Payable	597,158	167,763	764,921	534
Accrued Liabilities	851	11,062	11,913	-
Deferred Revenue	-	29,579	29,579	-
Due to Primary Government	-	-	-	7,986
Non-Current Liabilities:				
Due Within One Year	222,954	790,000	1,012,954	-
Due in More Than One Year	464,130	2,687,536	3,151,666	-
Deposits	-	240,782	240,782	-
Total Liabilities	1,326,318	3,926,722	5,253,040	8,520
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	6,088,462	7,549,158	13,637,620	1,347
Restricted for:				
Debt Service	-	17,694	17,694	-
Parks	2,066	-	2,066	-
Unrestricted	1,151,851	4,772,205	5,924,056	3,091,265
Total Net Assets	$ 7,242,379	$12,339,057	$19,581,436	$ 3,092,612

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES
YEAR ENDED SEPTEMBER 30, 2012

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General Government	$ 742,892	$ 431,397	$ 11,988	$ -	$ (299,507)
Public Safety	2,993,452	277,446	32,772	25,000	(2,658,234)
Streets and Public Works	1,346,007	22,424	-	412,044	(911,539)
Sanitation and Health	1,244,914	1,842,592	-	-	597,678
Parks and Recreation	1,647,887	315,783	40,893	19,626	(1,271,585)
Airport	481,615	303,881	5,926	-	(171,808)
Total Governmental Activities	8,456,767	3,193,523	91,579	456,670	(4,714,995)
Business-Type Activities:					
Water and Sewer Utilities	3,299,123	5,716,251	-	-	2,417,128
Total Business-Type Activities	3,299,123	5,716,251	-	-	2,417,128
Total Primary Government	$11,755,890	$ 8,909,774	$ 91,579	$ 456,670	$(2,297,867)
Component Unit:					
Hereford Economic Development Corp.	$ 772,397	$ -	$ -	$ -	(772,397)
Total Component Units	$ 772,397	$ -	$ -	$ -	$ (772,397)

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES (continued)
YEAR ENDED SEPTEMBER 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit HEDC
CHANGE IN NET ASSETS:				
Net (Expense) Revenue ...	$(4,714,995)	$ 2,417,128	$(2,297,867)	$ (772,397)
General Revenues:				
Taxes:				
Property Taxes	1,679,426	-	1,679,426	-
Sales Taxes	1,365,747	-	1,365,747	680,394
Franchise Taxes	1,024,363	-	1,024,363	-
Motel Occupancy Taxes .	151,760	-	151,760	-
Lease Income	-	88,809	88,809	-
Interest Income	2,344	8,920	11,264	9,427
Miscellaneous	28,306	-	28,306	-
Transfers.....	919,042	(919,042)	-	-
Total General Revenues and Transfers	5,170,988	(821,313)	4,349,675	689,821
Change in Net Assets ..	455,993	1,595,815	2,051,808	(82,576)
Net Assets - Beginning	6,786,386	10,743,242	17,529,628	3,175,188
Net Assets - Ending	$ 7,242,379	$12,339,057	$19,581,436	$ 3,092,612

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash	$ 13,467	$ 21,410	$ 34,877
Investments	474,800	-	474,800
Receivables (Net):			
Property Taxes	69,191	-	69,191
Accounts	187,347	-	187,347
Other	25,785	-	25,785
Due from Other Funds	961,876	9,238	971,114
Due from Component Unit	7,986	-	7,986
Inventories	39,045	-	39,045
Restricted Assets	-	2,350	2,350
Total Assets	$1,779,497	$ 32,998	$1,812,495
LIABILITIES			
Bank Overdraft	$ 41,225	$ -	$ 41,225
Accounts Payable	585,570	11,588	597,158
Accrued Liabilities	851	-	851
Due to Other Funds	-	19,344	19,344
Deferred Revenue	53,123	-	53,123
Total Liabilities	680,769	30,932	711,701
FUND BALANCES			
Nonspendable:			
Inventories	39,045	-	39,045
Restricted for:			
Parks	-	2,066	2,066
Unassigned	1,059,683	-	1,059,683
Total Fund Balances	1,098,728	2,066	1,100,794
Total Liabilities and Fund Balances	$1,779,497	$ 32,998	$1,812,495

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2012

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

Total Fund Balance - Total Governmental Funds.....	$1,100,794
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of $16,984,563, net of accumulated depreciation of $10,209,017 are not financial resources and, therefore, are not reported in the funds	6,775,546
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are deferred in the funds	53,123
Long-term liabilities of $687,084 are not due and payable in the current period and are not reported in the funds	(687,084)
Net Assets of Governmental Activities.....	$7,242,379

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, 2012

	General Fund	Other Governmental Funds	Total
REVENUES:			
Property Taxes	$1,678,311	$ -	$1,678,311
Sales Taxes	1,365,747	-	1,365,747
Franchise Taxes	1,024,363	-	1,024,363
Motel Occupancy Taxes	151,760	-	151,760
Charges for Services	3,193,523	-	3,193,523
Grant Revenue	38,698	16,587	55,285
Interest Income	2,316	28	2,344
Contributions	432,446	60,518	492,964
Miscellaneous Revenue	28,306	-	28,306
	7,915,470	77,133	7,992,603
EXPENDITURES:			
Current:			
General Government	707,406	-	707,406
Public Safety	2,702,124	15,274	2,717,398
Streets and Public Works	1,219,748	-	1,219,748
Sanitation and Health	1,303,615	-	1,303,615
Parks and Recreation	1,440,122	10,000	1,450,122
Airport	376,057	-	376,057
Capital Outlays	1,321,016	167,034	1,488,050
Debt Service:			
Principal Retirement	214,501	-	214,501
Interest Charges	18,692	-	18,692
	9,303,281	192,308	9,495,589
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,387,811)	(115,175)	(1,502,986)
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	218,175	-	218,175
Transfers In	1,200,000	101,881	1,301,881
Transfers Out	-	-	-
	1,418,175	101,881	1,520,056
NET CHANGE IN FUND BALANCES	30,364	(13,294)	17,070
FUND BALANCES:			
Beginning of Year	1,068,364	15,360	1,083,724
End of Year	$1,098,728	$ 2,066	$1,100,794

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, 2012

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.....	$ 17,070
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.....	1,488,050
Depreciation Expense.....	(663,729)
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....	1,115
Governmental funds do not report transfers of capital assets to business-type funds in the fund statements, however, the business-type funds report these transfers as an addition to capital assets as transfers from the governmental funds. This is the amount of sewer system improvements constructed through the Capital Projects Fund transferred to the Water and Sewer Fund.....	(382,839)
The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:	
Loan Proceeds.....	(218,175)
Debt Repayments.....	214,501
Change in Net Assets of Governmental Activities.....	$ 455,993

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF NET ASSETS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2012

CURRENT ASSETS	
Cash	$ 4,066,070
Investments	1,301,173
Receivables (Net):	
Accounts	533,844
Other	132
Inventories	161,842
	6,063,061
NONCURRENT ASSETS	
Restricted Assets	17,694
Deferred Charges	110,100
Capital Assets:	
Non-Depreciable	877,119
Depreciable, Net	10,149,575
	11,154,488
Total Assets	17,217,549
CURRENT LIABILITIES	
Accounts Payable	167,763
Accrued Liabilities	11,062
Due to Other Funds	951,770
Deferred Revenue	29,579
Long-Term Debt, Amounts Due Within One Year	790,000
	1,950,174
NONCURRENT LIABILITIES	
Long-Term Debt, Amounts Due in More Than One Year	2,687,536
Deposits	240,782
	2,928,318
Total Liabilities	4,878,492
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	7,549,158
Restricted for Debt Service	17,694
Unrestricted	4,772,205
Total Net Assets	$12,339,057

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2012

OPERATING REVENUES:	
Water Billings	$ 4,346,250
Sewer Billings	1,218,209
Penalties	139,767
Service Taps	8,968
Miscellaneous	3,057
	5,716,251
OPERATING EXPENSES:	
Personnel Cost	1,094,929
Heat, Light and Power	640,861
Depreciation and Amortization	613,226
Repairs and Maintenance	449,367
Insurance	133,889
Supplies and Chemicals	119,492
Fuel	56,531
Water Purchases	41,395
Dues and Fees	25,021
Telephone	16,561
Uniforms	5,813
Miscellaneous	5,600
Travel	4,490
Lab Expense	4,227
Property Taxes	3,595
Rents	1,836
	3,216,833
Income from Operations	2,499,418
NONOPERATING REVENUES (EXPENSES):	
Lease Income	88,809
Investment Income	8,920
Interest and Fiscal Charges	(82,290)
	15,439
Income Before Transfers	2,514,857
Transfers In	382,839
Transfers Out	(1,301,881)
CHANGE IN NET ASSETS	1,595,815
Net Assets - Beginning	10,743,242
Net Assets - Ending	$12,339,057

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	$5,687,733
Other Operating Receipts	3,057
Cash Paid to Suppliers for Goods and Services	(1,447,909)
Cash Payments to Employees for Services	(922,716)
Net Cash Provided by (Used for) Operations	3,320,165
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Rents Received	88,809
Transfers from Reserve Funds	1,094,355
Transfers to Other Funds	(1,003,255)
Transfers to Reserve Funds	(1,323,601)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,143,692)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and Construction of Capital Assets	(236,890)
Principal Paid on Bond Maturities	(970,000)
Interest and Fees Paid on Long-Term Debt	(125,355)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,332,245)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	8,751
Purchase of Certificates of Deposit	(2,069)
Net Cash Provided by (Used for) Investing Activities	6,682
NET INCREASE (DECREASE) IN CASH	850,910
Cash, Beginning of Year	3,215,160
Cash, End of Year	$4,066,070

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2012

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

Income (Loss) from Operations	$2,499,418
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Depreciation	596,759
Amortization	16,467
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(37,296)
(Increase) Decrease in Inventory	(22,402)
Increase (Decrease) in Water Deposits	11,836
Increase (Decrease) in Accounts Payable	255,672
Increase (Decrease) in Accrued Property Taxes	(289)
Net Cash Provided by (Used for) Operations	$3,320,165

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2012

	Employee Retirement Fund
ASSETS	
Deferred Compensation Plan Assets	$ 149,015
NET ASSETS	
Held in Trust for Employee Retirement	$ 149,015

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED SEPTEMBER 30, 2012

	Employee Retirement Fund
ADDITIONS	
Employee Contributions	$ 4,707
Investment Income	8,423
Total Additions	13,130
DEDUCTIONS	
Benefits	4,073
Administrative Expenses	876
Total Deductions	4,949
Change in Net Assets	8,181
Net Assets - Beginning	140,834
Net Assets - Ending	$ 149,015

See Accompanying "Notes to Financial Statements"

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 assets 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 20, 2013, the date the financial statements were available to be issued.

J. 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.

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

K. 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 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 Capital Projects Fund has $2,350 in cash, which is restricted for sewer facility improvements. The Water and Sewer Fund has $17,694 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 $15,504 and the allowance in the Water and Sewer Fund is $16,875.

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 - LONG-TERM DEBT:
Long-term debt of the Governmental Funds as of September 30, 2012, consists of the following:

	Balance 9-30-11	Increases	Decreases	Balance 9-30-12	Due Within One Year
First Financial Bank, monthly payments of $4,378, including interest at 3.00%, through February 2012, secured by bulldozer	$ 21,685	$ -	$(21,685)	$ -	$ -
First Financial Bank, monthly payments of $6,363, including interest at 3.00%, through February 2015, secured by compactor	247,380	-	(69,799)	177,581	72,007
First Financial Bank, monthly payments of $2,225, including interest at 2.90%, through June 2015, secured by golf carts	100,601	-	(24,062)	76,539	24,805
First Financial Bank, monthly payments of $3,680, including interest at 2.65%, through April 2014, secured by loader	110,026	-	(41,717)	68,309	42,867
First Financial Bank, monthly payments of $3,736, including interest at 2.50%, through July 2016, secured by golf course equipment	203,718	-	(40,138)	163,580	41,217
First Financial Bank, monthly payments of $3,869, including interest at 2.40%, through April 2017, secured by street sweeper	-	218,175	(17,100)	201,075	42,058
	$683,410	$218,175	$(214,501)	$687,084	$222,954

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

Year Ending September 30,	Principal	Interest	Totals
2013	$222,954	$ 15,511	$238,465
2014	212,673	9,525	222,198
2015	142,867	4,391	147,258
2016	74,364	1,520	75,884
2017	34,226	341	34,567
	$687,084	$ 31,288	$718,372

NOTE 5 - LONG-TERM DEBT (continued):
Long-term debt of the Water and Sewer Fund as of September 30, 2012, consists of the following:

	Balance 9-30-11	Increases	Decreases	Balance 9-30-12	Due Within One Year
Water and Sewer 2003 series surplus revenue certificates of obligation, dated Jan. 22, 2003, due in annual installments through Sep. 1, 2012, bearing an interest rate of 3.90%	$ 195,000	$ -	$ (195,000)	$ -	$ -
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%	2,810,000	-	(570,000)	2,240,000	580,000
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%	1,295,000	-	(205,000)	1,090,000	210,000
	4,300,000	-	(970,000)	3,330,000	$ 790,000
Plus unamortized premium on 2010 bonds and certificates	188,705	-	(41,169)	147,536	
	$4,488,705	$ -	$(1,011,169)	$3,477,536	

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

Year Ending September 30,	Principal	Interest	Totals
2013	$ 790,000	$ 101,250	$ 891,250
2014	425,000	79,650	504,650
2015	430,000	69,050	499,050
2016	445,000	58,300	503,300
2017	465,000	44,950	509,950
2018 to 2020	775,000	63,000	838,000
	$3,330,000	$ 416,200	$3,746,200

Revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances.

NOTE 6 - 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 7 - 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, 2012, with an annual rental of $62,500.

NOTE 8 - 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 9 - 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 10 - 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, 2012, 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, 2012, are shown as follows:

Type of Security	Fair Value	Percentage of Total	Credit Rating	Investment Maturity
Primary Government:				
Certificates of Deposit	$1,775,973	100.00%	N/A	Less than one year
Component Unit:				
Certificates of Deposit	$2,300,938	100.00%	N/A	Less than one year

NOTE 10 - 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, 2012, 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 11 - CAPITAL ASSETS:
Following is a summary of the capital asset activity for the year ended September 30, 2012:

	Beginning Of Year	Additions	Retirements	End Of Year
Primary Government:				
Governmental Activities:				
Non-Depreciable Assets:				
Land	$ 619,289	$ -	$ -	$ 619,289
Construction in Progress	264,371	869,689	(382,839)	751,221
Depreciable Assets:				
Buildings	2,642,495	-	-	2,642,495
Improvements	5,194,282	71,559	-	5,265,841
Machinery & Equipment	7,158,914	546,803	-	7,705,717
	15,879,351	1,488,051	(382,839)	16,984,563
Accumulated Depreciation	9,545,288	663,729	-	10,209,017
Governmental Activities Net Capital Assets	$ 6,334,063	$ 824,322	$ (382,839)	$ 6,775,546
Business-Type Activities:				
Non-Depreciable Assets:				
Land	$ 712,120	$ -	$ -	$ 712,120
Construction in Progress	64,806	119,018	(18,825)	164,999
Depreciable Assets:				
Buildings	804,705	-	-	804,705
Water and Sewer System	19,085,096	401,663	-	19,486,759
Machinery & Equipment	1,473,676	87,835	-	1,561,511
	22,140,403	608,516	(18,825)	22,730,094
Accumulated Depreciation	11,106,641	596,759	-	11,703,400
Business-Type Activities Net Capital Assets	$11,033,762	$ 11,757	$ (18,825)	$11,026,694
Primary Government Net Capital Assets	$17,367,825	$ 836,079	$ (401,664)	$17,802,240
Component Unit:				
Hereford Economic Development Corp:				
Depreciable Assets:				
Furniture & Equipment	$ 16,972	$ 1,365	$ -	$ 18,337
	16,972	1,365	-	18,337
Accumulated Depreciation	16,822	168	-	16,990
Component Units Net Capital Assets	$ 150	$ 1,197	$ -	$ 1,347

NOTE 11 - CAPITAL ASSETS (continued):
Depreciation expense was charged to governmental functions as follows:

General Government	$ 35,486
Public Safety	216,774
Streets and Public Works ...	114,819
Sanitation and Health	578
Parks and Recreation	190,514
Airport	105,558
	$663,729

NOTE 12 - 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 13 -- 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, 2013. Following is a summary of interfund balances:

	Due From:			
	General Fund	Other Gov't Funds	Water & Sewer Fund	Total
Due To:				
General Fund	$ -	$ 19,344	$942,532	$961,876
Other Gov't Funds	-	-	9,238	9,238
Water and Sewer Fund	-	-	-	-
	$ -	$ 19,344	$951,770	$971,114

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 $1,200,000 from the Water and Sewer Fund to the General Fund. The City also transferred $101,881 from its Water and Sewer Fund to its Capital Projects Fund for part of its matching requirement on a sewer facility improvement grant.

NOTE 14 - 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 2011	Plan Year 2012
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 Repeating	70% of CPI Repeating

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.

NOTE 14 - 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	12/31/09	12/31/10	12/31/11
Actuarial Value of Assets	$ 9,474,438	$11,680,649	$12,428,677
Actuarial Accrued Liability	12,270,905	14,204,260	14,760,403
Percentage Funded	77.21%	82.23%	84.20%
Unfunded Actuarial Accrued Liability (UAAL)	2,796,467	2,523,611	2,331,726
Annual Covered Payroll	3,577,814	3,834,124	4,001,749
UAAL as a Percentage of Covered Payroll	78.16%	65.82%	58.27%
Net Pension Obligation (NPO), Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	380,348	420,877	444,885
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	380,348	420,877	444,885
Contributions Made	380,348	420,877	444,885
Increase in NPO	-	-	-
NPO, End of Period	$ -	$ -	$ -

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010, actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 Years; Closed Period	27.2 Years; Closed Period	26.2 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*	7.5%	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 14 - 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 2010, 2011 and 2012 were $8,415, $8,930 and $7,260, 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, 2012

	Budgeted Amounts		Actual	Variance Over
	Original	Final	Amounts	(Under)
REVENUES:				
Property Taxes	$1,647,319	$1,647,319	$1,678,311	$ 30,992
Sales Taxes	1,220,000	1,220,000	1,365,747	145,747
Franchise Taxes	995,000	995,000	1,024,363	29,363
Motel Occupancy Taxes	140,000	140,000	151,760	11,760
Charges for Services	3,055,580	3,055,580	3,193,523	137,943
Grant Revenue	3,000	3,000	38,698	35,698
Interest Income	1,200	1,200	2,316	1,116
Contributions	9,000	9,000	432,446	423,446
Miscellaneous Revenue	24,800	24,800	28,306	3,506
	7,095,899	7,095,899	7,915,470	$ 819,571
EXPENDITURES:				
Current:				
General Government	757,090	757,090	707,406	(49,684)
Public Safety	2,716,769	2,716,769	2,702,124	(14,645)
Streets and Public Works	1,070,050	1,070,050	1,219,748	149,698
Sanitation and Health	1,268,598	1,268,598	1,303,615	35,017
Parks and Recreation	1,232,750	1,232,750	1,440,122	207,372
Airport	275,467	275,467	376,057	100,590
Capital Outlays	264,263	264,263	1,321,016	1,056,753
Debt Service:				
Principal Retirement	223,000	223,000	214,501	(8,499)
Interest Charges	21,500	21,500	18,692	(2,808)
	7,829,487	7,829,487	9,303,281	1,473,794
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(733,588)	(733,588)	(1,387,811)	(654,223)
OTHER FINANCING SOURCES (USES):				
Loan Proceeds	-	-	218,175	218,175
Transfers In	750,000	750,000	1,200,000	450,000
	750,000	750,000	1,418,175	668,175
NET CHANGE IN FUND BALANCES	16,412	16,412	30,364	13,952
FUND BALANCES:				
Beginning of Year	1,068,364	1,068,364	1,068,364	-
End of Year	$1,084,776	$1,084,776	$1,098,728	$ 13,952

CITY OF HEREFORD, TEXAS

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ -	$ 21,410	$ -	$ 21,410
Due from Other Funds	-	-	9,238	9,238
Restricted Assets	-	-	2,350	2,350
Total Assets	$ -	$ 21,410	$ 11,588	$ 32,998
LIABILITIES				
Accounts Payable	$ -	$ -	$ 11,588	$ 11,588
Due to Other Funds	-	19,344	-	19,344
Total Liabilities	-	19,344	11,588	30,932
FUND BALANCES				
Restricted for Parks	-	2,066	-	2,066
Restricted for Police	-	-	-	-
Total Fund Balances	-	2,066	-	2,066
Total Liabilities and Fund Balances	$ -	$ 21,410	$ 11,588	$ 32,998

CITY OF HEREFORD, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
REVENUES:				
Grant Revenue	$ -	$ -	$ 16,587	$ 16,587
Interest Income	7	21	-	28
Contributions	-	60,518	-	60,518
	7	60,539	16,587	77,133
EXPENDITURES:				
Current:				
Public Safety	15,274	-	-	15,274
Parks and Recreations	-	10,000	-	10,000
Capital Outlays	-	48,566	118,468	167,034
	15,274	58,566	118,468	192,308
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(15,267)	1,973	(101,881)	(115,175)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	101,881	101,881
NET CHANGE IN FUND BALANCES	(15,267)	1,973	-	(13,294)
FUND BALANCES:				
Beginning of Year	15,267	93	-	15,360
End of Year	$ -	$ 2,066	$ -	$ 2,066

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
2008	14,597	414,201,088	28,376	2,460,000	0.59%	169
2009	14,597	470,756,016	32,250	2,000,000	0.42%	137
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

(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			
2008	0.352054	0.352100	-	1,462,200	98.35%	100.55%
2009	0.350000	0.350000	-	1,643,994	97.67%	98.76%
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%

CITY OF HEREFORD, TEXAS

SCHEDULE OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS SEPTEMBER 30, 2012

Fiscal Year Ended 9/30	The Certificates			% of Principal Retired
	Principal	Interest	Total	
2013	790,000	101,250	891,250	44.66%
2014	425,000	79,650	504,650	53.92%
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%
	$ 3,330,000	$ 416,200	$ 3,746,200	

CITY OF HEREFORD, TEXAS

SCHEDULE OF OTHER GENERAL DEBT OBLIGATIONS
SEPTEMBER 30, 2012

Authorized But Unissued General Obligation Bonds - None.

As of September 30, 2012, the City of Hereford owed $687,084 to First Financial Bank for financed golf carts, a financed landfill compactor, a financed street sweeper, a finanaced loader, and financed golf course equipment. The City makes monthly payments of $19,872 including interest. For additional information on these notes payable, please refer to Note 5 - Long-Term Debt on page 22 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:	2012	2011	2010	2009	2008
Taxes -- Property	$ 1,678,311	$ 1,684,282	$ 1,680,059	$ 1,648,404	$ 1,498,845
Taxes -- Sales and Occupancy	1,517,507	1,426,268	1,320,763	1,429,614	1,764,279
Charges for Services	3,193,523	3,119,151	2,871,517	2,969,606	2,766,115
Franchise Taxes	1,024,363	993,957	963,503	1,107,939	1,026,319
Miscellaneous	28,306	143,789	16,100	110,152	41,227
Grant Income	38,698	29,506	14,123	55,051	-
Contributions	432,446	9,942	10,374	15,582	10,447
Investment Income	2,316	2,060	6,216	8,945	25,932
Total Revenues	7,915,470	7,408,955	6,882,655	7,345,293	7,133,164
Expenditures:					
General Government	707,406	818,708	716,278	679,160	662,793
Public Safety	2,702,124	2,555,220	2,253,715	2,127,922	2,141,136
Streets and Public Works	1,219,748	1,074,120	1,177,898	1,070,254	977,933
Sanitation and Health	1,303,615	1,328,090	1,198,088	1,215,303	1,074,326
Parks and Recreation	1,440,122	1,268,486	1,270,904	1,309,183	1,218,549
Airport	376,057	336,460	242,198	250,683	284,435
Capital Outlays	1,321,016	765,022	708,118	497,744	1,223,272
Debt Service:					
Principal Retirement	214,501	165,592	152,564	265,718	936,687
Interest and Fiscal Charges	18,692	15,972	11,975	12,012	33,927
Total Expenditures	9,303,281	8,327,670	7,731,738	7,427,979	8,553,058
Excess (Deficit) of Revenues Over Expenditures	(1,387,811)	(918,715)	(849,083)	(82,686)	(1,419,894)
Other Financing Sources (Uses):					
Operating Transfers In	1,200,000	600,000	300,000	251	835,660
Sale of General Fixed Assets	-	67,010	-	-	-
Loan Proceeds	218,175	337,191	477,709	150,510	823,000
Operating Transfers Out					
Total Other Financing Sources (Uses)	1,418,175	1,004,201	777,709	150,761	1,658,660
Net Change in Fund Balances	30,364	85,486	(71,374)	68,075	238,766
Fund Balances:					
Beginning of Year	1,068,364	982,878	1,054,252	986,177	747,411
End of Year	$ 1,098,728	$ 1,068,364	$ 982,878	$ 1,054,252	$ 986,177

CITY OF HEREFORD, TEXAS

SCHEDULE OF CURRENT INVESTMENTS
SEPTEMBER 30, 2012

As of September 30, 2012, the City's investable funds were invested in the following categories:

Type of Investment	Market Value	Maturity
Certificates of Deposit	$ 1,775,973	30 Days
Total	$ 1,775,973	

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,				
	2012	2011	2010	2009	2008
OPERATING REVENUES:					
Water Billings	$ 4,346,250	$ 3,904,272	$ 3,229,345	$ 3,099,086	$ 2,813,041
Sewer Billings	1,218,209	1,162,851	1,146,872	1,051,787	1,040,669
Penalties	139,767	141,800	142,547	163,432	121,987
Miscellaneous	3,057	4,108	2,537	4,268	11,502
Service Taps	8,968	6,180	2,700	8,750	12,350
Total Operating Revenues	5,716,251	5,219,211	4,524,001	4,327,323	3,999,549
OPERATING EXPENSES:					
Personnel Cost	1,094,929	1,118,128	1,060,781	998,063	908,345
Depreciation and Amortization	613,226	622,349	536,394	532,702	475,035
Heat, Light and Power	640,861	551,205	493,566	498,135	594,088
Maintenance	449,367	421,769	322,979	390,668	508,943
Insurance	133,889	118,527	111,292	108,595	95,523
Supplies and Chemicals	119,492	106,311	98,149	99,302	102,256
Telephone	16,561	19,407	63,593	64,123	48,366
Water Purchases	41,395	30,255	20,118	36,496	17,208
Fuel	56,531	53,739	38,142	31,610	47,070
Dues and Fees	25,021	19,090	17,422	11,483	11,666
Miscellaneous	5,600	5,600	5,600	5,600	5,681
Uniforms	5,813	4,957	5,461	3,709	6,839
Travel	4,490	5,516	4,919	5,635	8,488
Rent	1,836	2,748	2,748	2,748	2,748
Property Taxes	3,595	3,776	5,701	2,161	549
Lab Expense	4,227	12,779	3,987	8,435	11,296
Total Operating Expenditures	3,216,833	3,096,156	2,790,852	2,799,465	2,844,101
Income from Operations	2,499,418	2,123,055	1,733,149	1,527,858	1,155,448
NON-OPERATING REVENUES (EXPENSES):					
Investment Income	8,920	9,969	17,556	12,946	35,203
Lease Income	88,809	86,584	77,818	73,360	73,360
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
Interest and Fiscal Charges	(82,290)	(211,190)	(223,190)	(262,947)	(269,054)
Total Non-Operating Revenues (Expenses)	15,439	(114,637)	(127,816)	(176,641)	(160,491)
Income Before Transfers & Capital Contributions	2,514,857	2,008,418	1,605,333	1,351,217	994,957
Transfers In	382,839	-	-	-	953,262
Transfers Out	(1,301,881)	(630,958)	(300,000)	-	(1,092,822)
CHANGE IN NET ASSETS	1,595,815	1,377,460	1,305,333	1,351,217	855,397
Net Assets - Beginning	10,743,242	9,365,782	8,060,449	6,709,232	5,853,835
Net Assets - Ending	$ 12,339,057	$ 10,743,242	$ 9,365,782	$ 8,060,449	$ 6,709,232