CITY OF HEREFORD, TEXAS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2013

CITY OF HEREFORD, TEXAS

SEPTEMBER 30, 2013

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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, 2013, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 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.

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 34 through 42 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.

McDonty & Associates LLP

Hereford, Texas
January 25, 2014

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			
	Govern-Mental Activities	Business-Type Activities	Total	Component Unit HEDC
ASSETS				
Cash	$ 69,316	$ 3,691,882	$ 3,761,198	$ 639,045
Investments	476,206	1,303,193	1,779,399	2,307,087
Receivables (Net):				
Property Taxes	66,599	-	66,599	-
Accounts	212,367	546,004	758,371	-
Notes	-	-	-	75,000
Other	21,552	-	21,552	799
Internal Balances	930,635	(930,635)	-	-
Due from Component Unit	2,922	-	2,922	-
Inventories	46,342	168,008	214,350	-
Restricted Assets	-	17,366	17,366	-
Capital Assets:				
Non-Depreciable	619,289	737,298	1,356,587	-
Depreciable, Net	6,809,895	10,785,363	17,595,258	21,054
Total Assets	9,255,123	16,318,479	25,573,602	3,042,985
LIABILITIES				
Bank Overdraft	405,240	-	405,240	-
Accounts Payable	411,024	167,136	578,160	246
Accrued Liabilities	-	9,282	9,282	-
Deferred Revenue	-	29,580	29,580	-
Due to Primary Government	-	-	-	2,922
Non-Current Liabilities:				
Due Within One Year	212,684	425,000	637,684	-
Due in More Than One Year	251,624	2,226,830	2,478,454	-
Deposits	-	258,364	258,364	-
Total Liabilities	1,280,572	3,116,192	4,396,764	3,168
NET POSITION				
Net Investment in Capital Assets	6,964,876	8,870,831	15,835,707	21,054
Restricted for:				
Debt Service	-	17,366	17,366	-
Police	8,443	-	8,443	-
Parks	11,767	-	11,767	-
Unrestricted	989,465	4,314,090	5,303,555	3,018,763
Total Net Position	$ 7,974,551	$13,202,287	$21,176,838	$ 3,039,817

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES
YEAR ENDED SEPTEMBER 30, 2013

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	$ 825,177	$ 257,245	$ -	$ -	$ (567,932)
Public Safety	3,062,443	246,804	-	9,000	(2,806,639)
Streets and Public Works	1,461,480	5,624	-	544,544	(911,312)
Sanitation and Health	1,327,626	1,986,132	-	-	658,506
Parks and Recreation	1,532,199	319,856	51,607	-	(1,160,736)
Airport	399,398	229,444	-	-	(169,954)
Total Governmental Activities	8,608,323	3,045,105	51,607	553,544	(4,958,067)
Business-Type Activities:					
Water and Sewer Utilities	3,310,249	5,719,465	-	-	2,409,216
Total Business-Type Activities	3,310,249	5,719,465	-	-	2,409,216
Total Primary Government	$11,918,572	$ 8,764,570	$ 51,607	$ 553,544	$(2,548,851)
Component Unit:					
Hereford Economic Development Corp.	$ 752,049	$ -	$ -	$ -	(752,049)
Total Component Units	$ 752,049	$ -	$ -	$ -	$ (752,049)

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITITES (continued)
YEAR ENDED SEPTEMBER 30, 2013

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit HEDC
CHANGE IN NET POSITION:				
Net (Expense) Revenue ...	$(4,958,067)	$ 2,409,216	$(2,548,851)	$ (752,049)
General Revenues:				
Taxes:				
Property Taxes	1,587,803	-	1,587,803	-
Sales Taxes	1,388,860	-	1,388,860	691,939
Franchise Taxes	981,116	-	981,116	-
Motel Occupancy Taxes .	145,893	-	145,893	-
Lease Income	-	89,809	89,809	-
Interest Income	1,923	9,305	11,228	7,315
Miscellaneous	49,644	-	49,644	-
Transfers	1,535,000	(1,535,000)	-	-
Total General Revenues and Transfers	5,690,239	(1,435,886)	4,254,353	699,254
Change in Net Position	732,172	973,330	1,705,502	(52,795)
Net Position - Beginning	7,242,379	12,339,057	19,581,436	3,092,612
Prior Period Adjustment	-	(110,100)	(110,100)	-
Net Position - Beginning As Restated.....	7,242,379	12,228,957	19,471,336	3,092,612
Net Position - Ending	$ 7,974,551	$13,202,287	$21,176,838	$ 3,039,817

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash	$ 25,002	$ 44,314	$ 69,316
Investments	476,206	-	476,206
Receivables (Net):			
Property Taxes	66,599	-	66,599
Accounts	212,367	-	212,367
Other	21,552	-	21,552
Due from Other Funds	960,382	-	960,382
Due from Component Unit	2,922	-	2,922
Inventories	46,342	-	46,342
Total Assets	$1,811,372	$ 44,314	$1,855,686
LIABILITIES			
Bank Overdraft	$ 405,240	$ -	$ 405,240
Accounts Payable	408,224	2,800	411,024
Due to Other Funds	-	29,747	29,747
Total Liabilities	813,464	32,547	846,011
DEFERRED INFLOWS OF RESOURCES			
Unavailable Property Tax Revenue	47,326	-	47,326
Total Deferred Inflows of Resources	47,326	-	47,326
FUND BALANCES			
Nonspendable:			
Inventories	46,342	-	46,342
Restricted for:			
Police	8,443	-	8,443
Parks	-	11,767	11,767
Unassigned	895,797	-	895,797
Total Fund Balances	950,582	11,767	962,349
Total Liabilities and Fund Balances	$1,811,372	$ 44,314	$1,855,686

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2013

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

Total Fund Balance - Total Governmental Funds	$ 962,349
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of $18,319,069, net of accumulated depreciation of $10,889,885 are not financial resources and, therefore, are not reported in the funds	7,429,184
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are unavailable in the funds	47,326
Long-term liabilities of $464,308 are not due and payable in the current period and are not reported in the funds	(464,308)
Net Position of Governmental Activities	$7,974,551

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, 2013

	General Fund	Other Governmental Funds	Total
REVENUES:			
Property Taxes	$1,593,600	$ -	$1,593,600
Sales Taxes	1,388,860	-	1,388,860
Franchise Taxes	981,116	-	981,116
Motel Occupancy Taxes	145,893	-	145,893
Charges for Services	3,045,105	-	3,045,105
Grant Revenue	9,000	-	9,000
Interest Income	1,915	8	1,923
Contributions	555,288	40,863	596,151
Miscellaneous Revenue	49,644	-	49,644
	7,770,421	40,871	7,811,292
EXPENDITURES:			
Current:			
General Government	791,666	-	791,666
Public Safety	2,823,170	-	2,823,170
Streets and Public Works	1,289,227	-	1,289,227
Sanitation and Health	1,327,049	-	1,327,049
Parks and Recreation	1,321,039	13,229	1,334,268
Airport	347,237	-	347,237
Capital Outlays	1,316,565	17,941	1,334,506
Debt Service:			
Principal Retirement	222,776	-	222,776
Interest Charges	14,838	-	14,838
	9,453,567	31,170	9,484,737
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,683,146)	9,701	(1,673,445)
OTHER FINANCING SOURCES (USES):			
Transfers In	1,535,000	-	1,535,000
Transfers Out	-	-	-
	1,535,000	-	1,535,000
NET CHANGE IN FUND BALANCES	(148,146)	9,701	(138,445)
FUND BALANCES:			
Beginning of Year	1,098,728	2,066	1,100,794
End of Year	$ 950,582	$ 11,767	$ 962,349

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, 2013

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	$ (138,445)
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	1,334,506
Depreciation Expense	(680,868)
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	(5,797)
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:	
Debt Repayments	222,776
Change in Net Position of Governmental Activities	$ 732,172

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2013

CURRENT ASSETS	
Cash	$ 3,691,882
Investments	1,303,193
Receivables (Net):	
Accounts	546,004
Inventories	168,008
	5,709,087
NONCURRENT ASSETS	
Restricted Assets	17,366
Capital Assets:	
Non-Depreciable	737,298
Depreciable, Net	10,785,363
	11,540,027
Total Assets	17,249,114
CURRENT LIABILITIES	
Accounts Payable	167,136
Accrued Liabilities	9,282
Due to Other Funds	930,635
Deferred Revenue	29,580
Long-Term Debt, Amounts Due Within One Year	425,000
	1,561,633
NONCURRENT LIABILITIES	
Long-Term Debt, Amounts Due in More Than One Year	2,226,830
Deposits	258,364
	2,485,194
Total Liabilities	4,046,827
NET POSITION	
Net Investment in Capital Assets	8,870,831
Restricted for Debt Service	17,366
Unrestricted	4,314,090
Total Net Position	$13,202,287

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, 2013

OPERATING REVENUES:	
Water Billings	$ 4,338,873
Sewer Billings	1,227,195
Penalties	141,272
Service Taps	8,200
Miscellaneous	3,925
	5,719,465
OPERATING EXPENSES:	
Personnel Cost	1,088,913
Depreciation and Amortization	641,957
Heat, Light and Power	624,771
Repairs and Maintenance	454,515
Insurance	132,387
Supplies and Chemicals	125,089
Fuel	56,451
Water Purchases	50,626
Dues and Fees	27,576
Telephone	14,960
Lab Expense	7,480
Uniforms	5,953
Miscellaneous	5,681
Property Taxes	3,519
Travel	3,134
Rents	2,448
	3,245,460
Income from Operations	2,474,005
NONOPERATING REVENUES (EXPENSES):	
Lease Income	89,809
Interest Income	9,305
Interest and Fiscal Charges	(64,789)
	34,325
Income Before Transfers	2,508,330
Transfers Out	(1,535,000)
CHANGE IN NET POSITION	973,330
Net Position - Beginning	12,339,057
Prior Period Adjustment	(110,100)
Net Position - Beginning as Restated	12,228,957
Net Position - Ending	$13,202,287

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	$5,720,962
Other Operating Receipts	3,925
Cash Paid to Suppliers for Goods and Services	(1,710,929)
Cash Payments to Employees for Services	(909,564)
Net Cash Provided by (Used for) Operations	3,104,394
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Rents Received	89,809
Transfers from Reserve Funds	891,295
Transfers to Other Funds	(890,780)
Transfers to Reserve Funds	(1,544,237)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,453,913)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and Construction of Capital Assets	(1,139,603)
Principal Paid on Bond Maturities	(790,000)
Interest and Fees Paid on Long-Term Debt	(102,295)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,031,898)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment Income	9,249
Purchase of Certificates of Deposit	(2,020)
Net Cash Provided by (Used for) Investing Activities	7,229
NET INCREASE (DECREASE) IN CASH	(374,188)
Cash, Beginning of Year	4,066,070
Cash, End of Year	$3,691,882

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2013

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

Income (Loss) from Operations	$2,474,005
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Depreciation	641,957
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(12,159)
(Increase) Decrease in Inventory	(6,166)
Increase (Decrease) in Water Deposits	17,582
Increase (Decrease) in Accounts Payable	(10,845)
Increase (Decrease) in Accrued Property Taxes	20
Net Cash Provided by (Used for) Operations	$3,104,394

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2013

	Employee Retirement Fund
ASSETS	
Cash	$ 11,454
Deferred Compensation Plan Assets	130,075
	141,529
LIABILITIES	
Due to General Fund	11,454
NET POSITION	
Held in Trust for Employee Retirement	$ 130,075

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

	Employee Retirement Fund
ADDITIONS	
Employee Contributions	$ 4,161
Investment Income	6,910
Total Additions	11,071
DEDUCTIONS	
Benefits	29,225
Administrative Expenses	786
Total Deductions	30,011
Change in Net Position	(18,940)
Net Position - Beginning	149,015
Net Position - Ending	$ 130,075

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 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 January 25, 2014, 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 Water and Sewer Fund has $17,366 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 $12,111 and the allowance in the Water and Sewer Fund is $9,984.

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, 2013, consists of the following:

	Balance 9-30-12	Increases	Decreases	Balance 9-30-13	Due Within One Year
First Financial Bank, monthly payments of $6,363, including interest at 3.00%, through February 2015, secured by compactor	$177,581	$ -	$(71,957)	$105,624	$ 74,196
First Financial Bank, monthly payments of $2,225, including interest at 2.90%, through June 2015, secured by golf carts	76,539	-	(24,783)	51,756	27,694
First Financial Bank, monthly payments of $3,680, including interest at 2.65%, through April 2014, secured by loader	68,310	-	(42,852)	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	163,579	-	(41,175)	122,404	42,258
First Financial Bank, monthly payments of $3,869, including interest at 2.40%, through April 2017, secured by street sweeper	201,075	-	(42,009)	159,066	43,078
	$687,084	$ -	$(222,776)	$464,308	$212,684

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

Year Ending September 30,	Principal	Interest	Totals
2014	$212,684	$ 9,530	$222,214
2015	142,938	4,395	147,333
2016	74,406	1,522	75,928
2017	34,280	342	34,622
	$464,308	$ 15,789	$480,097

NOTE 5 - LONG-TERM DEBT (continued):
Long-term debt of the Water and Sewer Fund as of September 30, 2013, consists of the following:

	Balance 9-30-12	Increases	Decreases	Balance 9-30-13	Due Within One Year
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%	$2,240,000	$ -	$ (580,000)	$1,660,000	$ 210,000
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%	1,090,000	-	(210,000)	880,000	215,000
	3,330,000	-	(790,000)	2,540,000	$ 425,000
Plus unamortized premium on 2010 bonds and certificates	147,536	-	(35,706)	111,830	
	$3,477,536	$ -	$ (825,706)	$2,651,830	

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

Year Ending September 30,	Principal	Interest	Totals
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	245,000	31,000	276,000
2019 to 2020	530,000	32,000	562,000
	$2,540,000	$ 314,950	$2,854,950

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, 2013, 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 - 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 11 - 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, 2013, 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, 2013, are shown as follows:

Type of Security	Fair Value	Percentage of Total	Credit Rating	Investment Maturity
Primary Government:				
Certificates of Deposit	$1,779,399	100.00%	N/A	Less than one year
Component Unit:				
Certificates of Deposit	$2,307,087	100.00%	N/A	Less than one year

NOTE 11 - 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, 2013, 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 12 - CAPITAL ASSETS:
Following is a summary of the capital asset activity for the year ended September 30, 2013:

	Beginning Of Year	Additions	Retirements	End Of Year
Primary Government:				
Governmental Activities:				
Non-Depreciable Assets:				
Land	$ 619,289	$ -	$ -	$ 619,289
Construction in Progress	751,221	753,413	(1,504,634)	-
Depreciable Assets:				
Buildings	2,642,495	207,322	-	2,849,817
Improvements	5,265,841	1,539,192	-	6,805,033
Machinery & Equipment	7,705,717	339,213	-	8,044,930
	16,984,563	2,839,140	(1,504,634)	18,319,069
Accumulated Depreciation	10,209,017	680,868	-	10,889,885
Governmental Activities Net Capital Assets	$ 6,775,546	$ 2,158,272	$(1,504,634)	$ 7,429,184
Business-Type Activities:				
Non-Depreciable Assets:				
Land	$ 712,120	$ -	$ -	$ 712,120
Construction in Progress	164,999	960,107	(1,099,928)	25,178
Depreciable Assets:				
Buildings	804,705	4,135	-	808,840
Water and Sewer System	19,486,759	1,099,928	-	20,586,687
Machinery & Equipment	1,561,511	173,682	-	1,735,193
	22,730,094	2,237,852	(1,099,928)	23,868,018
Accumulated Depreciation	11,703,400	641,957	-	12,345,357
Business-Type Activities Net Capital Assets	$11,026,694	$ 1,595,895	$(1,099,928)	$11,522,661
Primary Government Net Capital Assets	$17,802,240	$ 3,754,167	$(2,604,562)	$18,951,845
Component Unit:				
Hereford Economic Development Corp:				
Depreciable Assets:				
Furniture & Equipment	$ 18,338	$ 21,723	$ -	$ 40,061
	18,338	21,723	-	40,061
Accumulated Depreciation	16,991	2,016	-	19,007
Component Units Net Capital Assets	$ 1,347	$ 19,707	$ -	$ 21,054

NOTE 12 - CAPITAL ASSETS (continued):
Depreciation expense was charged to governmental functions as follows:

General Government	$ 33,510
Public Safety	239,272
Streets and Public Works ..	162,695
Sanitation and Health	578
Parks and Recreation	192,651
Airport	52,162
	$680,868

NOTE 13 - 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 14 -- 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, 2014. Following is a summary of interfund balances:

	Due From:			
	General Fund	Other Gov't Funds	Water & Sewer Fund	Total
Due To:				
General Fund	$ -	$ 29,747	$930,635	$960,382
Other Gov't Funds	-	-	-	-
Water and Sewer Fund	-	-	-	-
	$ -	$ 29,747	$930,635	$960,382

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 $1,535,000 from the Water and Sewer Fund to the General Fund.

NOTE 15 - 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 2012	Plan Year 2013
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 15 - 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	12/31/10	12/31/11	12/31/12
Actuarial Value of Assets	$11,680,649	$12,428,677	$13,181,021
Actuarial Accrued Liability	14,204,260	14,760,403	15,200,300
Percentage Funded	82.23%	84.20%	86.72%
Unfunded Actuarial Accrued Liability (UAAL)	2,523,611	2,331,726	2,019,279
Annual Covered Payroll	3,834,124	4,001,749	4,043,991
UAAL as a Percentage of Covered Payroll	65.82%	58.27%	49.93%
Net Pension Obligation (NPO), Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	420,877	444,885	470,580
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	420,877	444,885	470,580
Contributions Made	420,877	444,855	470,580
Increase in NPO	-	-	-
NPO, End of Period	$ -	$ -	$ -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011, actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/10	12/31/11	12/31/12
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	27.2 Years; Closed Period	26.2 Years; Closed Period	25.3 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 15 - 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 2011, 2012 and 2013 were $8,930, $7,260 and $7,568, respectively, which equaled the required contribution each year.

NOTE 16 - 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	$75,000

NOTE 17 - COMMITMENTS:

The component unit, Hereford Economic Development Corporation, has approved incentive packages to two different businesses with total amounts remaining to be paid of $300,000 at September 30, 2013. When the businesses meet the requirements of their contracts, the appropriate payments are made.

NOTE 18 - PRIOR PERIOD ADJUSTMENT:

The beginning net position of the Water and Sewer Fund was decreased by $110,100 to reflect the effect of implementing GASB Statement No. 65-*Items Previously Reported as Assets and Liabilities*. This statement requires that bond issue costs be shown as current period outflows of resources (expenses). The difference represents a restatement for bond issue costs that were being amortized under the prior standards but would have been expensed in the period incurred under the new standards.

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, 2013

	Budgeted Amounts		Actual	Variance Over
	Original	Final	Amounts	(Under)
REVENUES:				
Property Taxes	$1,652,500	$1,652,500	$1,593,600	$ (58,900)
Sales Taxes	1,360,000	1,360,000	1,388,860	28,860
Franchise Taxes	995,000	995,000	981,116	(13,884)
Motel Occupancy Taxes	140,000	140,000	145,893	5,893
Charges for Services	3,243,317	3,243,317	3,045,105	(198,212)
Grant Revenue	3,000	3,000	9,000	6,000
Interest Income	1,500	1,500	1,915	415
Contributions	12,000	12,000	555,288	543,288
Miscellaneous Revenue	24,800	24,800	49,644	24,844
	7,432,117	7,432,117	7,770,421	338,304
EXPENDITURES:				
Current:				
General Government	832,847	832,847	791,666	(41,181)
Public Safety	2,823,461	2,823,461	2,823,170	(291)
Streets and Public Works	1,143,931	1,143,931	1,289,227	145,296
Sanitation and Health	1,269,948	1,269,948	1,327,049	57,101
Parks and Recreation	1,303,050	1,303,050	1,321,039	17,989
Airport	351,700	351,700	347,237	(4,463)
Capital Outlays	413,300	413,300	1,316,565	903,265
Debt Service:				
Principal Retirement	227,000	227,000	222,776	(4,224)
Interest Charges	17,000	17,000	14,838	(2,162)
	8,382,237	8,382,237	9,453,567	1,071,330
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(950,120)	(950,120)	(1,683,146)	(733,026)
OTHER FINANCING SOURCES (USES):				
Transfers In	1,000,000	1,000,000	1,535,000	535,000
Transfers Out	-	-	-	-
	1,000,000	1,000,000	1,535,000	535,000
NET CHANGE IN FUND BALANCES	49,880	49,880	(148,146)	(198,026)
FUND BALANCES:				
Beginning of Year	1,098,728	1,098,728	1,098,728	-
End of Year	$1,148,608	$1,148,608	$ 950,582	$ (198,026)

CITY OF HEREFORD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash	$ -	$ 44,314	$ -	$ 44,314
Due from Other Funds	-	-	-	-
Restricted Assets	-	-	-	-
Total Assets	$ -	$ 44,314	$ -	$ 44,314
LIABILITIES				
Accounts Payable	$ -	$ 2,800	$ -	$ 2,800
Due to Other Funds	-	29,747	-	29,747
Total Liabilities	-	32,547	-	32,547
FUND BALANCES				
Restricted for Parks	-	11,767	-	11,767
Restricted for Police	-	-	-	-
Total Fund Balances	-	11,767	-	11,767
Total Liabilities and Fund Balances	$ -	$ 44,314	$ -	$ 44,314

CITY OF HEREFORD, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue			
	Office of Justice Programs Grant Fund	Voluntary Park Fund	Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
REVENUES:				
Grant Revenue	$ -	$ -	$ -	$ -
Interest Income	-	8	-	8
Contributions	-	40,863	-	40,863
	-	40,871	-	40,871
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Parks and Recreations	-	13,229	-	13,229
Capital Outlays	-	17,941	-	17,941
	-	31,170	-	31,170
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	9,701	-	9,701
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
NET CHANGE IN FUND BALANCES	-	9,701	-	9,701
FUND BALANCES:				
Beginning of Year	-	2,066	-	2,066
End of Year	$ -	$ 11,767	$ -	$ 11,767

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
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
2013	15,370	512,579,710	33,349	2,540,000	0.50%	165

(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			
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%
2013	0.326700	0.326700	-	1,656,213	98.34%	97.84%

CITY OF HEREFORD, TEXAS

SCHEDULE OF GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS SEPTEMBER 30, 2013

Fiscal Year Ended 9/30	The Certificates			% of Principal Retired
	Principal	Interest	Total	
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%
	$ 2,540,000	$ 314,950	$ 2,854,950	

CITY OF HEREFORD, TEXAS

SCHEDULE OF OTHER GENERAL DEBT OBLIGATIONS
SEPTEMBER 30, 2013

Authorized But Unissued General Obligation Bonds - None.

As of September 30, 2013, the City of Hereford owed $464,308 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 $19,873 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:	2013	2012	2011	2010	2009
Taxes -- Property	$ 1,593,600	$ 1,678,311	$ 1,684,282	$ 1,680,059	$ 1,648,404
Taxes -- Sales and Occupancy	1,534,753	1,517,507	1,426,268	1,320,763	1,429,614
Charges for Services	3,045,105	3,193,523	3,119,151	2,871,517	2,969,606
Franchise Taxes	981,116	1,024,363	993,957	963,503	1,107,939
Miscellaneous	49,644	28,306	143,789	16,100	110,152
Grant Income	9,000	38,698	29,506	14,123	55,051
Contributions	555,288	432,446	9,942	10,374	15,582
Investment Income	1,915	2,316	2,060	6,216	8,945
Total Revenues	7,770,421	7,915,470	7,408,955	6,882,655	7,345,293
Expenditures:					
General Government	791,666	707,406	818,708	716,278	679,160
Public Safety	2,823,170	2,702,124	2,555,220	2,253,715	2,127,922
Streets and Public Works	1,289,227	1,219,748	1,074,120	1,177,898	1,070,254
Sanitation and Health	1,327,049	1,303,615	1,328,090	1,198,088	1,215,303
Parks and Recreation	1,321,039	1,440,122	1,268,486	1,270,904	1,309,183
Airport	347,237	376,057	336,460	242,198	250,683
Capital Outlays	1,316,565	1,321,016	765,022	708,118	497,744
Debt Service:					
Principal Retirement	222,776	214,501	165,592	152,564	265,718
Interest and Fiscal Charges	14,838	18,692	15,972	11,975	12,012
Total Expenditures	9,453,567	9,303,281	8,327,670	7,731,738	7,427,979
Excess (Deficit) of Revenues Over Expenditures	(1,683,146)	(1,387,811)	(918,715)	(849,083)	(82,686)
Other Financing Sources (Uses):					
Operating Transfers In	1,535,000	1,200,000	600,000	300,000	251
Sale of General Fixed Assets	-	-	67,010	-	-
Loan Proceeds	-	218,175	337,191	477,709	150,510
Operating Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	1,535,000	1,418,175	1,004,201	777,709	150,761
Net Change in Fund Balances	(148,146)	30,364	85,486	(71,374)	68,075
Fund Balances:					
Beginning of Year	1,098,728	1,068,364	982,878	1,054,252	986,177
End of Year	$ 950,582	$ 1,098,728	$ 1,068,364	$ 982,878	$ 1,054,252

CITY OF HEREFORD, TEXAS

SCHEDULE OF CURRENT INVESTMENTS
SEPTEMBER 30, 2013

As of September 30, 2013, the City's investable funds were invested in the following categories:

Type of Investment	Market Value	Maturity
Certificates of Deposit	$ 1,779,399	30 Days
Total	$ 1,779,399	

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,				
	2013	2012	2011	2010	2009
OPERATING REVENUES:					
Water Billings	$ 4,338,873	$ 4,346,250	$ 3,904,272	$ 3,229,345	$ 3,099,086
Sewer Billings	1,227,195	1,218,209	1,162,851	1,146,872	1,051,787
Penalties	141,272	139,767	141,800	142,547	163,432
Miscellaneous	3,925	3,057	4,108	2,537	4,268
Service Taps	8,200	8,968	6,180	2,700	8,750
Total Operating Revenues	5,719,465	5,716,251	5,219,211	4,524,001	4,327,323
OPERATING EXPENSES:					
Personnel Cost	1,088,913	1,094,929	1,118,128	1,060,781	998,063
Depreciation and Amortization	641,957	613,226	622,349	536,394	532,702
Heat, Light and Power	624,771	640,861	551,205	493,566	498,135
Maintenance	454,515	449,367	421,769	322,979	390,668
Insurance	132,387	133,889	118,527	111,292	108,595
Supplies and Chemicals	125,089	119,492	106,311	98,149	99,302
Telephone	14,960	16,561	19,407	63,593	64,123
Water Purchases	50,626	41,395	30,255	20,118	36,496
Fuel	56,451	56,531	53,739	38,142	31,610
Dues and Fees	27,576	25,021	19,090	17,422	11,483
Miscellaneous	5,681	5,600	5,600	5,600	5,600
Uniforms	5,953	5,813	4,957	5,461	3,709
Travel	3,134	4,490	5,516	4,919	5,635
Rent	2,448	1,836	2,748	2,748	2,748
Property Taxes	3,519	3,595	3,776	5,701	2,161
Lab Expense	7,480	4,227	12,779	3,987	8,435
Total Operating Expenditures	3,245,460	3,216,833	3,096,156	2,790,852	2,799,465
Income from Operations	2,474,005	2,499,418	2,123,055	1,733,149	1,527,858
NON-OPERATING REVENUES (EXPENSES):					
Investment Income	9,305	8,920	9,969	17,556	12,946
Lease Income	89,809	88,809	86,584	77,818	73,360
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
Interest and Fiscal Charges	(64,789)	(82,290)	(211,190)	(223,190)	(262,947)
Total Non-Operating Revenues (Expenses)	34,325	15,439	(114,637)	(127,816)	(176,641)
Income Before Transfers & Capital Contributions	2,508,330	2,514,857	2,008,418	1,605,333	1,351,217
Transfers In	-	382,839	-	-	-
Transfers Out	(1,535,000)	(1,301,881)	(630,958)	(300,000)	-
CHANGE IN NET POSITION	973,330	1,595,815	1,377,460	1,305,333	1,351,217
Net Position - Beginning	12,339,057	10,743,242	9,365,782	8,060,449	6,709,232
Prior Period Adjustment	(110,100)	-	-	-	-
Net Position - Ending	$ 13,202,287	$ 12,339,057	$ 10,743,242	$ 9,365,782	$ 8,060,449