

ANNUAL FINANCIAL REPORT

of the

CITY OF DAYTON, TEXAS

For the Year Ended
September 30, 2013

(This page intentionally left blank.)

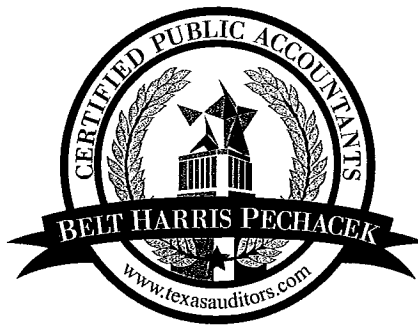
CITY OF DAYTON, TEXAS

TABLE OF CONTENTS

September 30, 2013

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds:	
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Proprietary Funds:	
Statement of Net Position	27
Statement of Revenues, Expenses, and Changes in Fund Net Position	29
Statement of Cash Flows	30
Fiduciary Fund:	
Statement of Fiduciary Net Position	33
Statement of Changes in Fiduciary Net Position	35
Notes to Financial Statements	37
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	59
Schedule of Funding Progress – Texas Municipal Retirement System	61
<u>INDIVIDUAL FUND SCHEDULE</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance– Budget and Actual – Debt Service Fund	65

(This page intentionally left blank.)



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Dayton, Texas:

Report on the Financial Statements

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 remaining fund information of the City of Dayton, Texas (the "City"), 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City'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.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

1304 South Front St.
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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 remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is a not required part of the basic financial statements.

The individual fund schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 3, 2014

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

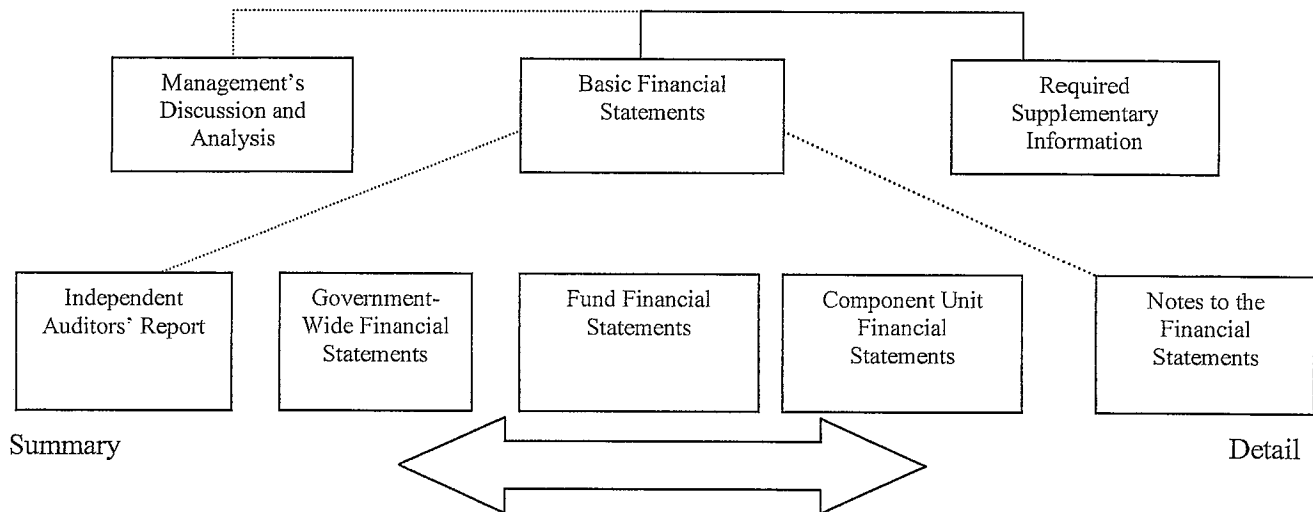
(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended September 30, 2013

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Dayton, Texas (the "City") for the year ending September 30, 2013. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here including public safety (police, fire, EMS), public works (street and park maintenance), community development (building permits/inspection), code compliance, recreation, project engineering, and general administration (City manager, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment and refuse services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate community development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The three categories of City funds are governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds, as well as the hotel/motel tax fund which is a nonmajor fund for reporting purposes.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and the debt service fund to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water and sewer impact, water construction operations, and refuse services. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment fund and refuse fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' medical insurance, group life and dental insurance activity is reported in a fiduciary fund. Since the resources of this fund are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary activities are reported in a separate statement of changes in fiduciary net position.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities by \$23,948,652 as of September 30, 2013 in the primary government.

A portion of the City's net position, \$11,461,718, reflects its investments in capital assets (e.g., land, City hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 9,100,772	\$ 4,459,914	\$ -	\$ 13,560,686
Capital assets, net	18,465,622	16,892,136	-	35,357,758
Total Assets	<u>27,566,394</u>	<u>21,352,050</u>	<u>-</u>	<u>48,918,444</u>
Deferred charge on refunding	3,954	-	-	3,954
Total Deferred Outflows of Resources	<u>3,954</u>	<u>-</u>	<u>-</u>	<u>3,954</u>
Other liabilities	394,487	679,265	-	1,073,752
Long-term liabilities	15,959,994	7,940,000	-	23,899,994
Total Liabilities	<u>16,354,481</u>	<u>8,619,265</u>	<u>-</u>	<u>24,973,746</u>
Net Position:				
Net investment in capital assets	2,509,582	8,952,136	-	11,461,718
Restricted	1,623,984	-	-	1,623,984
Unrestricted	7,082,301	3,780,649	-	10,862,950
Total Net Position	<u>\$ 11,215,867</u>	<u>\$ 12,732,785</u>	<u>\$ -</u>	<u>\$ 23,948,652</u>
2012				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 8,174,191	\$ 4,604,210	\$ -	\$ 12,778,401
Capital assets, net	18,485,879	17,254,380	-	35,740,259
Total Assets	<u>26,660,070</u>	<u>21,858,590</u>	<u>-</u>	<u>48,518,660</u>
Deferred charge on refunding	4,745	-	-	4,745
Total Deferred Outflows of Resources	<u>4,745</u>	<u>-</u>	<u>-</u>	<u>4,745</u>
Other liabilities	445,998	219,689	-	665,687
Long-term liabilities	17,334,785	8,060,000	-	25,394,785
Total Liabilities	<u>17,780,783</u>	<u>8,279,689</u>	<u>-</u>	<u>26,060,472</u>
Net Position:				
Net investment in capital assets	1,445,839	9,194,380	(290,000)	10,350,219
Restricted	1,675,266	-	-	1,675,266
Unrestricted	5,762,927	4,384,521	290,000	10,437,448
Total Net Position	<u>\$ 8,884,032</u>	<u>\$ 13,578,901</u>	<u>\$ -</u>	<u>\$ 22,462,933</u>

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

A portion of the City's net position, \$1,623,984 or 6.8 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$10,862,950, may be used to meet the City's ongoing obligation to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government. The City paid off the debt during the year and therefore no adjustment is needed in fiscal year 2013.

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 469,618	\$ 4,105,628	\$ 4,575,246	\$ 409,599	\$ 4,198,827	\$ 4,608,426
Grants and contributions	125,638	-	125,638	493,848	35,000	528,848
General revenues:						
Property taxes	4,696,620	-	4,696,620	4,570,211	-	4,570,211
Sales taxes	1,349,335	-	1,349,335	1,263,882	-	1,263,882
Franchise and local taxes	791,503	-	791,503	728,811	-	728,811
Investment income	28,952	11,318	40,270	52,953	26,628	79,581
Other revenues	111,890	19,408	131,298	76,708	24,338	101,046
Total Revenues	7,573,556	4,136,354	11,709,910	7,596,012	4,284,793	11,880,805
Expenses						
General government	1,020,821	-	1,020,821	1,078,921	-	1,078,921
Public safety	2,174,567	-	2,174,567	2,117,615	-	2,117,615
Public works	1,317,655	3,857,470	5,175,125	1,151,412	3,991,338	5,142,750
Culture and recreation	595,737	-	595,737	598,987	-	598,987
Community enhancement	576,481	-	576,481	655,102	-	655,102
Interest and fees on debt	681,460	-	681,460	722,249	-	722,249
Total Expenses	6,366,721	3,857,470	10,224,191	6,324,286	3,991,338	10,315,624
Change in Net Position Before Transfers						
	1,206,835	278,884	1,485,719	1,271,726	293,455	1,565,181
Transfers						
	1,125,000	(1,125,000)	-	410,267	(410,267)	-
Total Transfers	1,125,000	(1,125,000)	-	410,267	(410,267)	-
Change in Net Position	2,331,835	(846,116)	1,485,719	1,681,993	(116,812)	1,565,181
Beginning net position	8,884,032	13,578,901	22,462,933	7,202,039	13,695,713	20,897,752
Ending Net Position	\$ 11,215,867	\$ 12,732,785	\$ 23,948,652	\$ 8,884,032	\$ 13,578,901	\$ 22,462,933

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Governmental Activities

For the year ended September 30, 2013, revenues from governmental activities totaled \$7,573,556. Property and sales tax revenues are the City's largest general revenue sources. Property tax revenue increased slightly over prior year by \$126,409. Sales tax revenue increased by \$85,453 or 6.8 percent over the previous year. Operating grants and contributions decreased by \$368,210 or 74.6 percent from the prior year due to a decrease in funds received from various grants. General government expenditures decreased by \$58,100 or 5.4 percent from prior year due to decreased personnel expenses. Public works expenses increased by \$166,243 or 14.4 percent from prior year due to increased drainage and street paving expenses.

Business-Type Activities

For the year ended September 30, 2013, charges for services related to business-type activities totaled \$4,105,628. This is a decrease of \$93,199 or 2.2 percent from the previous year due to a slight decrease in gallons pumped. Business-type expenses totaled \$3,857,470 which is a decrease of \$133,868 from the prior year. This decrease is due to a decrease in engineering fees and repairs and maintenance.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year, the City's governmental funds reflect a combined fund balance of \$8,132,622. Of this, \$935 is nonspendable for prepaid items, \$1,461,402 is restricted for debt service, \$34,514 is restricted for municipal court, \$2,193 is restricted for public safety, \$21,497 is restricted for PEG fees, and \$209,367 is restricted for tourism. The City has assigned \$3,427 for various projects. Unassigned fund balance totaled \$6,399,287 as of year end.

There was a combined increase in governmental fund balances of \$948,848 from the prior year. The majority of this increase is related to the increase in the general fund balance.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$6,399,287, while total fund balance reached \$6,461,853. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 114 percent of total general fund expenditures, while total fund balance represents 115 percent of the total expenditures. The general fund reported an overall increase of \$1,044,878 primarily due to an increase in property tax revenue and a decrease in general government expenses. The decrease in general government expenses is due to the City spending less on capital outlay.

The debt service fund has a total fund balance of \$1,461,402, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year was \$114,809. This decrease can be attributed to a decrease in property tax revenue and an increase in debt payments.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned increase in budgeted fund balance in the amount of \$1,153,705 in the general fund. However, the net change in fund balance increased by \$1,044,878.

Actual general fund revenues were under amended budgeted revenues by \$28,789 during 2013. This net variance includes a negative variance of \$32,346 for franchise and local tax revenues. Actual expenditures were higher than total budgeted amounts by \$80,037 for the fiscal year.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$18,465,622 in a variety of capital assets and infrastructure, net of accumulated depreciation. This represents a net decrease of \$20,257. The City's business-type activities funds had invested \$16,892,136 in a variety of capital assets and infrastructure, net of accumulated depreciation. This represents a net decrease of \$362,244.

Major capital asset events during the year include the following:

- The addition of the Clayton Street Ground Storage Tank Rehabilitation Project in the amount of \$512,595.
- The addition of the 321 Outfall Ditch Improvements Project in the amount of \$224,338.
- Construction in progress additions for the Rosewood Well Rehabilitation Project in the amount of \$533,285.

More detailed information about the City's capital assets is presented in Note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total general obligation bonds, certificates of obligation, tax anticipation notes and capital leases outstanding of \$23,726,053. Of this amount, \$15,505,000 was general obligation debt, certificates of obligation accounted for \$7,940,000, and capital leases totaled \$281,053.

More detailed information about the City's long-term liabilities is presented in Note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Due to good fiscal management, the City's financial stability is strong. City management and the City Council are in constant review of the City's fund balance to ensure that there are sufficient funds always on hand to cover any unplanned events.

The City's sales tax and property tax revenues continue to increase and show a healthy future for the City. In addition to this, the City has several new industrial prospects interested in locating to the area that will prove to be an even greater financial asset.

This is a good indication that the City continues to be headed in the right direction in regards to what it has to offer those desiring to relocate to southeast Texas and Liberty County.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

FINANCIAL STATEMENTS

(This page intentionally left blank)

CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	DCDC
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,529,035	\$ 2,812,029	\$ 9,341,064	\$ 844,740
Investments	1,504,906	1,000,000	2,504,906	867,237
Receivables, net	1,009,929	488,702	1,498,631	123,426
Due from primary government	-	-	-	55,319
Inventories	-	146,189	146,189	-
Prepaid items	935	-	935	-
Total Current Assets	9,044,805	4,446,920	13,491,725	1,890,722
Net pension asset	55,967	12,994	68,961	-
Capital assets:				
Non-depreciable	1,384,811	640,693	2,025,504	-
Net depreciable capital assets	17,080,811	16,251,443	33,332,254	-
Total Assets	27,566,394	21,352,050	48,918,444	1,890,722
Deferred Outflows of Resources				
Deferred charge on refunding	3,954	-	3,954	-
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	234,179	533,289	767,468	11,264
Due to component unit	55,319	-	55,319	-
Customer deposits	-	98,907	98,907	-
Accrued interest payable	104,989	47,069	152,058	-
	394,487	679,265	1,073,752	11,264
Noncurrent liabilities:				
Due within one year	1,474,568	120,000	1,594,568	-
Due in more than one year	14,485,426	7,820,000	22,305,426	-
	15,959,994	7,940,000	23,899,994	-
Total Liabilities	16,354,481	8,619,265	24,973,746	11,264
Net Position				
Net investment in capital assets	2,509,582	8,952,136	11,461,718	-
Restricted for:				
Debt service	1,356,413	-	1,356,413	-
Other purposes	267,571	-	267,571	-
Economic development	-	-	-	1,879,458
Unrestricted	7,082,301	3,780,649	10,862,950	-
Total Net Position	\$ 11,215,867	\$ 12,732,785	\$ 23,948,652	\$ 1,879,458

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,020,821	\$ -	\$ -
Public safety	2,174,567	421,610	113,711
Public works	1,317,655	48,008	10,394
Culture and recreation	595,737	-	-
Community enhancement	576,481	-	1,533
Interest and fees on debt	681,460	-	-
Total Governmental Activities	6,366,721	469,618	125,638
Business-Type Activities			
Water and sewer	3,019,288	3,070,922	-
Refuse	838,182	1,034,706	-
Total Business-Type Activities	3,857,470	4,105,628	-
Total Primary Government	\$ 10,224,191	\$ 4,575,246	\$ 125,638
Component Unit			
Dayton Community Development Corporation	\$ 355,166	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	DCDC
\$ (1,020,821)	\$ -	\$ (1,020,821)	\$ -
(1,639,246)	-	(1,639,246)	-
(1,259,253)	-	(1,259,253)	-
(595,737)	-	(595,737)	-
(574,948)	-	(574,948)	-
(681,460)	-	(681,460)	-
<u>(5,771,465)</u>	<u>-</u>	<u>(5,771,465)</u>	<u>-</u>
-	51,634	51,634	-
-	196,524	196,524	-
-	248,158	248,158	-
<u>(5,771,465)</u>	<u>248,158</u>	<u>(5,523,307)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (355,166)</u>
4,696,620	-	4,696,620	-
1,349,335	-	1,349,335	674,667
791,503	-	791,503	-
28,952	11,318	40,270	3,024
111,890	19,408	131,298	1,540
1,125,000	(1,125,000)	-	-
<u>8,103,300</u>	<u>(1,094,274)</u>	<u>7,009,026</u>	<u>679,231</u>
2,331,835	(846,116)	1,485,719	324,065
8,884,032	13,578,901	22,462,933	1,555,393
<u>\$ 11,215,867</u>	<u>\$ 12,732,785</u>	<u>\$ 23,948,652</u>	<u>\$ 1,879,458</u>

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	General	Debt Service	Nonmajor Hotel and Motel Tax	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 4,872,009	\$ 1,453,511	\$ 203,515	\$ 6,529,035
Investments	1,504,906	-	-	1,504,906
Receivables, net	820,737	182,338	6,854	1,009,929
Due from other funds	-	7,891	-	7,891
Prepaid items	935	-	-	935
Total Assets	\$ 7,198,587	\$ 1,643,740	\$ 210,369	\$ 9,052,696
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 233,177	\$ -	\$ 1,002	\$ 234,179
Due to other funds	7,891	-	-	7,891
Due to component unit	55,319	-	-	55,319
Total Liabilities	296,387	-	1,002	297,389
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	440,347	182,338	-	622,685
<u>Fund Balances</u>				
Nonspendable:				
Prepaid items	935	-	-	935
Restricted:				
Debt service	-	1,461,402	-	1,461,402
Municipal court	34,514	-	-	34,514
Public safety	2,193	-	-	2,193
PEG fees	21,497	-	-	21,497
Tourism	-	-	209,367	209,367
Assigned:				
Special projects	3,427	-	-	3,427
Unassigned	6,399,287	-	-	6,399,287
Total Fund Balances	6,461,853	1,461,402	209,367	8,132,622
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,198,587	\$ 1,643,740	\$ 210,369	\$ 9,052,696

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

September 30, 2013

Total fund balances – total governmental funds	\$ 8,132,622
--	--------------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	1,384,811
Capital assets - net depreciable	17,080,811

The net pension asset is not an available resource and, therefore, is not reported in the governmental funds.	55,967
---	--------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	622,685
---	---------

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(104,989)
Non-current liabilities due in one year	(1,474,568)
Non-current liabilities due in more than one year	(14,485,426)
Deferred charge on refunding	3,954

Net Position of Governmental Activities	\$ <u>11,215,867</u>
--	-----------------------------

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2013

	General	Debt Service	Nonmajor Hotel and Motel Tax	Total Governmental Funds
<u>Revenues</u>				
Property tax	\$ 3,386,571	\$ 1,290,657	\$ -	\$ 4,677,228
Sales tax	1,349,335	-	-	1,349,335
Franchise and local taxes	415,262	-	78,063	493,325
Licenses and permits	48,008	-	-	48,008
Intergovernmental	124,105	-	-	124,105
Fines and forfeitures	295,556	-	-	295,556
Charges for services	126,054	-	-	126,054
Investment income	21,949	6,476	527	28,952
Contributions and donations	1,533	-	-	1,533
Payments in lieu of taxes	298,178	-	-	298,178
Other revenue	111,890	-	-	111,890
Total Revenues	6,178,441	1,297,133	78,590	7,554,164
<u>Expenditures</u>				
Current:				
General government	1,038,969	-	-	1,038,969
Public safety	2,050,093	-	-	2,050,093
Public works	1,653,068	-	-	1,653,068
Culture and recreation	468,025	-	-	468,025
Community enhancement	105,833	-	17,539	123,372
Civic center	317,575	-	-	317,575
Tourism promotion	-	-	42,272	42,272
Debt service:				
Principal	-	1,335,000	-	1,335,000
Interest and fiscal charges	-	701,942	-	701,942
Total Expenditures	5,633,563	2,036,942	59,811	7,730,316
Excess (Deficiency) of Revenues Over (Under) Expenditures	544,878	(739,809)	18,779	(176,152)
<u>Other Financing Sources (Uses)</u>				
Transfers in	500,000	625,000	-	1,125,000
Total Other Financing Sources	500,000	625,000	-	1,125,000
Net Change in Fund Balances	1,044,878	(114,809)	18,779	948,848
Beginning fund balances	5,416,975	1,576,211	190,588	7,183,774
Ending Fund Balances	\$ 6,461,853	\$ 1,461,402	\$ 209,367	\$ 8,132,622

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

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

Net changes in fund balances - total governmental funds	\$	948,848
---	----	---------

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 outlay		829,768
Depreciation expense		(850,025)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		19,392
--	--	--------

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Accrued interest		9,677
Principal expenditures		1,363,195
Deferred charges		10,805
Net pension obligation		175

Change in Net Position of Governmental Activities	\$	<u>2,331,835</u>
--	-----------	-------------------------

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2013

	Water and Sewer	Refuse	Total Funds
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 2,052,503	\$ 759,526	\$ 2,812,029
Investments	1,000,000	-	1,000,000
Receivables, net	369,262	119,440	488,702
Inventories	146,189	-	146,189
Total Current Assets	3,567,954	878,966	4,446,920
Noncurrent Assets			
Net pension asset	11,664	1,330	12,994
Capital assets:			
Non-depreciable	614,508	26,185	640,693
Net depreciable capital assets	16,242,939	8,504	16,251,443
Total Noncurrent Assets	16,869,111	36,019	16,905,130
Total Assets	20,437,065	914,985	21,352,050
<u>Liabilities</u>			
Current Liabilities			
Accounts payable and accrued liabilities	518,780	14,509	533,289
Customer deposits	98,907	-	98,907
Accrued interest payable	47,069	-	47,069
Total Current Liabilities	664,756	14,509	679,265
Noncurrent Liabilities			
Due within one year	120,000	-	120,000
Due in more than one year	7,820,000	-	7,820,000
Total Liabilities	8,604,756	14,509	8,619,265
<u>Net Position</u>			
Net investment in capital assets	8,916,117	36,019	8,952,136
Unrestricted	2,916,192	864,457	3,780,649
Total Net Position	\$ 11,832,309	\$ 900,476	\$ 12,732,785

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2013

	Water and Sewer	Refuse	Total Funds
<u>Operating Revenues</u>			
Water and sewer charges	\$ 3,070,922	\$ -	\$ 3,070,922
Sanitation	-	1,034,706	1,034,706
Other services	19,068	340	19,408
Total Operating Revenues	3,089,990	1,035,046	4,125,036
<u>Operating Expenses</u>			
Personnel services	723,494	74,313	797,807
Services	186,524	747,296	933,820
Supplies	132,594	8,788	141,382
Utilities	239,106	2,878	241,984
Repairs and maintenance	256,224	4,122	260,346
Depreciation	1,170,279	785	1,171,064
Miscellaneous	22,165	-	22,165
Total Operating Expenses	2,730,386	838,182	3,568,568
Operating Income	359,604	196,864	556,468
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	8,434	2,884	11,318
Interest expense	(288,902)	-	(288,902)
Total Nonoperating Revenues (Expenses)	(280,468)	2,884	(277,584)
Income Before Transfers	79,136	199,748	278,884
Transfers (out)	(625,000)	(500,000)	(1,125,000)
Total Transfers	(625,000)	(500,000)	(1,125,000)
Change in Net Position	(545,864)	(300,252)	(846,116)
Beginning net position	12,378,173	1,200,728	13,578,901
Ending Net Position	\$ 11,832,309	\$ 900,476	\$ 12,732,785

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2013

	Water and Sewer	Refuse	Total Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 3,050,010	\$ 1,028,876	\$ 4,078,886
Payments to suppliers	(424,100)	(757,441)	(1,181,541)
Payments to employees	(724,047)	(74,166)	(798,213)
Net Cash Provided by Operating Activities	<u>1,901,863</u>	<u>197,269</u>	<u>2,099,132</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Operating transfer (out)	(625,000)	(500,000)	(1,125,000)
Net Cash (Used) by Noncapital Financing Activities	<u>(625,000)</u>	<u>(500,000)</u>	<u>(1,125,000)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(808,820)	-	(808,820)
Principal paid on capital debt	(120,000)	-	(120,000)
Interest paid on capital debt	(288,902)	-	(288,902)
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,217,722)</u>	<u>-</u>	<u>(1,217,722)</u>
<u>Cash Flows from Investing Activities</u>			
Purchase of investments	(1,000,000)	-	(1,000,000)
Interest on investments	8,434	2,884	11,318
Net Cash Provided (Used) by Investing Activities	<u>(991,566)</u>	<u>2,884</u>	<u>(988,682)</u>
Net (Decrease) in Cash and Cash Equivalents	(932,425)	(299,847)	(1,232,272)
Beginning cash and cash equivalents	<u>2,984,928</u>	<u>1,059,373</u>	<u>4,044,301</u>
Ending Cash and Cash Equivalents	<u>\$ 2,052,503</u>	<u>\$ 759,526</u>	<u>\$ 2,812,029</u>

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2013

	Water and Sewer	Refuse	Total Funds
<u>Reconciliation of Operating Income (Loss)</u>			
<u>to Net Cash Provided (Used) by Operating Activities</u>			
Operating income	\$ 359,604	\$ 196,864	\$ 556,468
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,170,279	785	1,171,064
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(46,388)	(6,170)	(52,558)
Net pension asset	(553)	147	(406)
Inventories	(35,012)	-	(35,012)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	447,525	5,643	453,168
Customer deposits	6,408	-	6,408
Net Cash Provided by Operating Activities	\$ 1,901,863	\$ 197,269	\$ 2,099,132

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
 September 30, 2013

	<u>Employee Benefits Trust</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 73
Total Assets	<u>73</u>
 <u>Net Position</u>	
Held in trust for insurance benefits and other purposes	\$ 73

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND

For the Year Ended September 30, 2013

	<u>Employee Benefits Trust</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 520,519
Employee	131,003
Interest	73
Total Additions	<u>651,595</u>
 <u>Deductions</u>	
Benefits	651,522
Total Deductions	<u>651,522</u>
Change in Net Position	73
Beginning net position	<u>-</u>
Ending Net Position	<u><u>\$ 73</u></u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dayton, Texas (the "City") is a Home Rule City. The City operates under a "Mayor-Council" form of government and provides services authorized by its charter. Presently, these services include: police, fire and ambulance protection, drainage, building and code inspection, planning, street repair and maintenance, park maintenance, and general administrative services.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Dayton Community Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Dayton Community Development Corporation

Dayton Community Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of 11 members, seven of whom are voting members and four of whom are "advisory directors" who cannot vote on any action of the Corporation. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. As a discretely presented component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation has a September 30 year end.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Financial statements for the Corporation may be obtained by contacting Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, community enhancement, and the civic center. The general fund is considered a major fund for reporting purposes.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Special Revenue Fund

The special revenue fund is used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The hotel and motel tax special revenue fund is considered non-major for reporting purposes.

The City reports the following enterprise funds:

Enterprise Funds

The water and sewer fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The refuse fund is used to account for the operations that provide garbage services to the public. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund and refuse fund are considered major funds for reporting purposes.

Additionally, the City reports the following fund type:

Fiduciary Fund

The employee benefits trust fund accounts for activities of the Blue Cross Blue Shield medical insurance and the Lincoln Life group life and dental insurance, which accumulates resources for payments to qualified City employees. Members of City Council are the trustee, or fiduciary, for its employees' benefits trust fund.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual 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 taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

7. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Nonspendable fund balance represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

10. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on January 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

3. Proprietary Funds Operating and Nonoperating 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 enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget as defined by the charter is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 2,504,906	0.25
Portfolio weighted average maturity		0.25

As of September 30, 2013, the Corporation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 867,237	0.50
Portfolio weighted average maturity		0.50

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 103 percent. As of September 30, 2013, market values of pledged securities and FDIC coverage sufficiently covered bank balances.

B. Receivables

The following comprise receivable balances at year end for governmental funds:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Component Unit</u>
Property tax	\$ 440,347	\$ 182,338	\$ -	\$ -
Sales tax	244,353	-	-	123,426
Other tax	133,101	-	-	-
Other	2,936	-	6,854	-
	<u>\$ 820,737</u>	<u>\$ 182,338</u>	<u>\$ 6,854</u>	<u>\$ 123,426</u>

The following comprise receivable balances at year end for enterprise funds:

	<u>Water and Sewer</u>	<u>Refuse</u>
Accounts	\$ 381,241	\$ 120,979
Other	1,448	-
Less allowance	(13,427)	(1,539)
	<u>\$ 369,262</u>	<u>\$ 119,440</u>

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

C. Capital Assets

A summary of changes in governmental capital assets for the year end is as follows:

	Beginning Balance	Increases	(Decreases)/ (Reclasses)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,375,094	\$ 9,717	\$ -	\$ 1,384,811
Total capital assets, not being depreciated	1,375,094	9,717	-	1,384,811
Other capital assets:				
Infrastructure	3,694,568	445,427	-	4,139,995
Buildings and improvements	13,575,434	25,287	-	13,600,721
Machinery and equipment	3,895,151	349,337	-	4,244,488
Total other capital assets	21,165,153	820,051	-	21,985,204
Less accumulated depreciation for:				
Infrastructure	(417,161)	(151,218)	-	(568,379)
Buildings and improvements	(1,376,408)	(301,630)	-	(1,678,038)
Machinery and equipment	(2,260,799)	(397,177)	-	(2,657,976)
Total accumulated depreciation	(4,054,368)	(850,025)	-	(4,904,393)
Other capital assets, net	17,110,785	(29,974)	-	17,080,811
Governmental Activities Capital Assets, Net	\$ 18,485,879	\$ (20,257)	\$ -	18,465,622
			Less debt associated with capital assets	(15,959,994)
			Plus deferred charge on refunding	3,954
			Net investment in capital assets	\$ 2,509,582

Depreciation was charged to governmental functions as follows:

General government	\$ 36,280
Public safety	173,389
Public works	282,180
Culture and recreation	242,718
Community enhancement	115,458
Total Governmental Activities Depreciation Expense	\$ 850,025

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

A summary of changes in business-type capital assets for the year end was as follows:

	Beginning Balance	Increases	(Decreases)/ (Reclasses)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 107,408	\$ -	\$ -	\$ 107,408
Construction in progress	512,594	533,285	(512,594)	533,285
Total capital assets not being depreciated	620,002	533,285	(512,594)	640,693
Other capital assets:				
Building and improvements	314,434	18,828	-	333,262
Machinery and equipment	1,249,859	99,059	-	1,348,918
Water and sewer system	26,563,052	670,242	-	27,233,294
Total other capital assets	28,127,345	788,129	-	28,915,474
Less accumulated depreciation for:				
Building and improvements	(106,134)	(8,960)	-	(115,094)
Machinery and equipment	(855,637)	(90,302)	-	(945,939)
Water and sewer system	(10,531,196)	(1,071,802)	-	(11,602,998)
Total accumulated depreciation	(11,492,967)	(1,171,064)	-	(12,664,031)
Other capital assets, net	16,634,378	(382,935)	-	16,251,443
Business-Type Activities Capital Assets, Net	\$ 17,254,380	\$ 150,350	\$ (512,594)	16,892,136
			Less associated debt	(7,940,000)
			Net investment in capital assets	\$ 8,952,136

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,170,279
Refuse	785
Total Business-Type Activities Depreciation Expense	\$ 1,171,064

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

D. Long-term Debt

The following is a summary of changes in the City's long-term liabilities for the year ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 16,550,000	\$ -	\$ 1,045,000	\$ 15,505,000 *	\$ 1,445,000
Certificates of obligation	290,000	-	290,000	-	-
Plus deferred amounts:					
Issuance premiums	185,537	-	11,596	173,941 *	-
Capital leases	309,248	-	28,195	281,053 *	29,568
Total Governmental Activities	\$ 17,334,785	\$ -	\$ 1,374,791	\$ 15,959,994	\$ 1,474,568
Long-term liabilities due in more than one year				\$ 14,485,426	
*Debt associated with governmental activity capital assets				\$ 15,959,994	
 Business-Type Activities:					
Certificates of obligation	\$ 8,060,000	\$ -	\$ 120,000	\$ 7,940,000 **	\$ 120,000
Total Business-Type Activities	\$ 8,060,000	\$ -	\$ 120,000	\$ 7,940,000	\$ 120,000
Long-term liabilities due in more than one year				\$ 7,820,000	
**Debt associated with capital assets				\$ 7,940,000	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities:		
General Obligation Bonds		
2008 general obligation refunding bonds	3.35%	1,540,000
2008 general obligation bonds	3.25-5.25%	12,570,000
2012 tax anticipation notes	0.54-2.00%	700,000
2009 tax anticipation notes	2.55-4.20%	695,000
Total General Obligation Bonds		15,505,000
Capital leases	2.6-3.5%	\$ 281,053
Total Governmental Activities Long-Term Debt		\$ 15,786,053
Business-Type Activities:		
Certificates of Obligation		
2006 certificates of obligation	2.95-3.85%	\$ 7,940,000
Total Business-Type Activities Long-Term Debt		\$ 7,940,000

The annual requirements to amortize debt issues outstanding at year ending were as follows:

Year Ending Sept. 30	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2014	\$ 1,445,000	\$ 651,298	\$ 120,000	\$ 286,738
2015	1,495,000	599,670	130,000	282,643
2016	1,185,000	544,453	130,000	278,320
2017	1,165,000	503,233	195,000	272,828
2018	835,000	466,471	555,000	259,939
2019-2023	4,195,000	1,827,050	3,095,000	985,613
2024-2028	5,185,000	709,406	3,715,000	362,833
Total	\$ 15,505,000	\$ 5,301,581	\$ 7,940,000	\$ 2,728,911

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Annual debt service requirements to retire outstanding capital leases are as follows:

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2014	\$ 29,568	\$ 13,691
2015	31,009	12,251
2016	32,519	10,740
2017	34,103	9,156
2018	35,764	7,495
2019-2021	118,090	11,687
Totals	\$ 281,053	\$ 65,019

The assets acquired through capital lease are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 335,000
Less: accumulated depreciation	(29,313)
Total	\$ 305,687

E. Interfund Transactions

Transfers between the primary government funds during the 2013 fiscal year were as follows:

	Transfers In	Transfers Out
Governmental Funds:		
Individual major governmental funds:		
General	\$ 500,000	\$ -
Debt service	625,000	-
Total Governmental Funds	1,125,000	-
Enterprise Funds:		
Individual major enterprise funds:		
Water and sewer	-	625,000
Refuse	-	500,000
Total Enterprise Funds	-	1,125,000
Total Transfers	\$ 1,125,000	\$ 1,125,000

Amounts transferred between funds relate to amounts collected by general, special revenue and enterprise funds for various governmental expenditures and debt payments.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The composition of interfund balances as of year end is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Debt service	General	\$ 7,891

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year.

F. Fund Equity/Net Position

Funds restricted by enabling legislation are \$34,514, \$2,193, \$21,497, and \$209,367 related to municipal court security, public safety, PEG fees, and tourism.

G. Restatement of Net Position

In the fiscal year ending September 30, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with this statement, beginning net position of the governmental activities, the water and sewer fund, and business-type activities have been reduced by \$350,305, \$283,001, and \$283,001, respectively, to remove previously capitalized bond issuance costs.

The beginning net position for the debt service fund and governmental activities has been restated by \$43,634 in order to remove accrued interest payable.

	<u>Debt Service</u>	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Business-Type Activities</u>
Beginning net position/fund balance	\$ 1,532,577	9,190,703	\$ 12,661,174	\$ 13,861,902
Bond issuance costs	-	(350,305)	(283,001)	(283,001)
Accrued interest payable	43,634	43,634	-	-
Beginning net position - restated	\$ 1,576,211	\$ 8,884,032	\$ 12,378,173	\$ 13,578,901

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pools (the “Pool”). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), 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 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 for the City were as follows:

	<u>2013</u>	<u>2012</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI Repeating	0% 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 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 remainder of the plan's 30-year amortization period. 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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (asset) are as follows:

Annual required contribution (ARC)	\$	155,322
Interest on net pension asset (NPA)		(4,786)
Adjustment to the ARC		4,205
Annual pension cost (APC)		154,741
Contributions made		(155,322)
Increase in NPA		(581)
NPA-beginning of year		(68,380)
NPA-end of year	\$	(68,961)

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2011	\$ 271,502	\$ 288,870	106.40%	\$ (67,714)
2012	\$ 187,625	\$ 188,291	100.35%	\$ (68,380)
2013	\$ 154,741	\$ 155,322	100.38%	\$ (68,961)

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:

	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	25.5 Years - Closed period	25.4 Years - Closed period	27.4 Years - Closed period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10 - year smoothed market	10 - year smoothed market	10 - year smoothed market
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 Cost of Living Adjustments	3.00%	3.00%	3.00%
	0.0%	0.0%	0.0%

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended September 30, 2013

The funded status as of December 31, 2012, the most recent valuation date, is as follows:

		2013
Actuarial Valuation Date		12/31/2012
Actuarial Value of Assets	\$	4,493,201
Actuarial Accrued Liability	\$	5,066,735
Percentage Funded		88.7%
Unfunded Actuarial Accrued Liability (UAAL)	\$	573,534
Annual Covered Payroll	\$	2,843,107
UAAL as a Percentage of Covered Payroll		20.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, 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.

2. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. Total participant contributions were approximately \$12,665 for the year ended September 30, 2013. The City does not contribute to the plan.

The City 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 assets of the plan have not been included in the City's financial statements.

3. Firefighters' Relief and Retirement Fund

The City provides pension coverage for all its volunteer firemen through contributions to the Firefighters' Relief and Retirement Fund (the "Plan") administered by the Firemen's Pension Commission of Texas.

This Plan was created by Senate Bill No. 411 and is not applicable to a public agency whose governing body exempted itself from its operation within 60 days of August 28, 1977. Membership in this Plan is restricted to volunteer firemen who serve without remuneration.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The City contributes the minimum of \$12 per month for each active firefighter starting on the date the firefighter enters the system. The Plan provides that the State is to contribute the sum necessary to make the fund actuarially sound each year. The State's contribution is limited to one-third of the total contributions of the governing bodies in one year. The State Board of Trustees and the Firemen's Pension Commissioner have stated their policy is to bring each individual municipality into the system on an actuarially sound basis without the need for State supplementation. The State has not made any contributions since the enactment date.

Upon the attainment of age 55, a member who is vested may retire and receive a monthly pension equal to six times the City's monthly contribution multiplied by the member vesting percentage. The vesting percentage is 25 percent with five years of service and each subsequent year of service adds another five percent so that after ten years the member is 50 percent vested. Thereafter, each year of service adds ten percent to the vesting percentage until the member becomes fully vested with 15 years of service. For each year of service over 15, an additional seven percent, compounded annually, is added. The Plan also provides for on-duty and off-duty death and disability benefits, as well as monthly pensions for spouses and minor children.

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the 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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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 life insurance during employees' entire careers.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
 For the Year Ended September 30, 2013

The City's contribution to the TMRS SDBF for the fiscal years ended 2013, 2012, and 2011 were \$890, \$938, and \$911, respectively. The City's contribution rates for the past three years are shown below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.03%
Actual Contribution Made	0.03%	0.03%	0.03%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
Revenues				
Property tax	\$ 3,492,448	\$ 3,386,571	\$ 3,386,571	\$ -
Sales tax	1,117,377	1,349,335	1,349,335	-
Franchise and local taxes	421,473	415,262	415,262	-
Licenses and permits	33,000	48,008	48,008	-
Intergovernmental	-	124,105	124,105	-
Fines and forfeitures	204,753	295,556	295,556	-
Charges for services	127,650	126,054	126,054	-
Investment income	40,100	21,949	21,949	-
Contributions and donations	-	1,533	1,533	-
Payments in lieu of taxes	170,000	298,178	298,178	-
Other revenue	19,800	111,890	111,890	-
Total Revenues	<u>5,626,601</u>	<u>6,178,441</u>	<u>6,178,441</u>	<u>-</u>
Expenditures				
Current:				
General government	1,058,470	1,038,969	1,038,969	-
Public safety	2,163,658	2,050,093	2,050,093	-
Public works	1,804,122	1,653,068	1,653,068	-
Culture and recreation	458,576	468,025	468,025	-
Community enhancement	117,881	105,833	105,833	-
Civic center	295,391	317,575	317,575	-
Debt Service:				
Principal	52,000	-	-	-
Total Expenditures	<u>5,950,098</u>	<u>5,633,563</u>	<u>5,633,563</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>(323,497)</u>	<u>544,878</u>	<u>544,878</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers in	500,000	500,000	500,000	-
Transfers (out)	(24,000)	-	-	-
Net Change in Fund Balance	<u>\$ 152,503</u>	<u>\$ 1,044,878</u>	<u>1,044,878</u>	<u>\$ -</u>
Beginning fund balance			5,416,975	
Ending Fund Balance			<u>\$ 6,461,853</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2013

Fiscal Year	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 4,493,201	\$ 3,995,813	\$ 3,458,492
Actuarial Accrued Liability	\$ 5,066,735	\$ 4,669,323	\$ 4,241,342
Percentage Funded	88.7%	85.6%	81.5%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 573,534	\$ 673,510	\$ 782,850
Annual Covered Payroll	\$ 2,843,107	\$ 2,822,712	\$ 2,633,372
UAAL % of Covered Payroll	20.2%	23.9%	29.7%
Net Pension Obligation (NPO)/(Asset)			
(NPA) at the Beginning of Period	\$ (68,380)	\$ (67,714)	\$ (50,346)
Annual Pension Cost (APC)	154,741	187,625	271,502
Contributions Made	155,322	188,291	288,870
NPA at the End of Period	<u><u>\$ (68,961)</u></u>	<u><u>\$ (68,380)</u></u>	<u><u>\$ (67,714)</u></u>

(This page intentionally left blank.)

INDIVIDUAL FUND SCHEDULE

(This page intentionally left blank.)

CITY OF DAYTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<u>Revenues</u>				
Property tax	\$ 1,258,932	\$ 1,258,932	\$ 1,290,657	\$ 31,725
Investment income	10,150	10,150	6,476	(3,674)
Total Revenues	<u>1,269,082</u>	<u>1,269,082</u>	<u>1,297,133</u>	<u>28,051</u>
<u>Expenditures</u>				
Principal	1,335,000	1,335,000	1,335,000	-
Interest and fiscal charges	702,846	702,846	701,942	904
Total Expenditures	<u>2,037,846</u>	<u>2,037,846</u>	<u>2,036,942</u>	<u>904</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(768,764)</u>	<u>(768,764)</u>	<u>(739,809)</u>	<u>27,147</u>
<u>Other Financing Sources</u>				
Transfers in	773,486	773,486	625,000	(148,486)
Total Other Financing Sources	<u>773,486</u>	<u>773,486</u>	<u>625,000</u>	<u>(148,486)</u>
Net Change in Fund Balance	<u>\$ 4,722</u>	<u>\$ 4,722</u>	(114,809)	<u>\$ (121,339)</u>
Beginning fund balance			<u>1,576,211</u>	
Ending Fund Balance			<u>\$ 1,461,402</u>	

(This page intentionally left blank.)