

CITY OF KEENE
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2013



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Keene, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Keene, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Keene, Texas, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 41-42 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 of Keene, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the discretely presented component units are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

AuldridgelGriffin, P.C.

Fort Worth, Texas
February XX, 2016

Management's Discussion and Analysis (MD&A)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Keene (the City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements and accompanying notes, which can be found on pages 23 through 38 of this report.

FINANCIAL HIGHLIGHTS

- The City's total combined net position was \$7,269,242 at September 30, 2013 of which \$1,731,054 was unrestricted.
- During the year, expenses were \$89,971 less than the \$6,904,317 generated in revenues for the City's activities.
- The City's general fund reported a fund balance this year of \$1,900,750 of which \$1,798,991 is unassigned and subject to use at the City's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates like businesses.
- The financial statements also include *notes to the financial statements* explaining information in the financial statements and provide more detailed data.
- The report also contains other supplementary information in addition to the basic financial statements themselves.

Figure A-1 Required Components of the City's Annual Financial Report

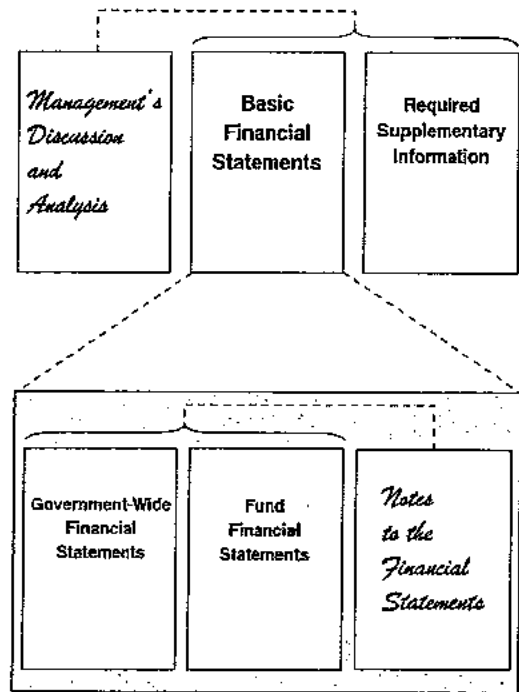


Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Summary ↔ Detail

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain.

Type of Statement	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self-insurance	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> Statement of net position Statement of revenues, expenses and changes in fund net position Statement of cash flows 	<ul style="list-style-type: none"> Statement of fiduciary net assets Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of info/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net position* and how they have changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, economic development, parks and recreation, and interest on long-term debt. Property taxes, sales taxes, fees for service, and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes guidelines to control and manage money for particular purposes or to show that it is properly using certain revenue resources.

The City has two types of funds:

- *Governmental funds*—The City’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explain the relationship (or differences) between them.
- *Proprietary funds (business type funds)*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

NET POSITION

The City’s *combined* net position were \$7,269,242 at September 30, 2013 (Table A-1).

Table A-1
City’s Net Position

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,357,814	\$ 1,944,744	\$ 2,273,448	\$ 2,744,154	\$ 4,631,262	\$ 4,688,898
Non-current assets	1,439,837	1,484,521	7,491,547	7,974,819	8,931,384	9,459,340
Total assets	3,797,651	3,429,265	9,764,995	10,718,973	13,562,646	14,148,238
Current liabilities	474,262	461,024	1,024,018	972,745	1,498,280	1,433,769
Long-term liabilities	359,006	453,501	4,436,118	5,081,698	4,795,124	5,535,199
Total liabilities	833,268	914,525	5,460,136	6,054,443	6,293,404	6,968,968
Net invested in capital assets	1,190,075	1,085,316	2,405,407	3,366,413	3,595,482	4,451,729
Restricted	129,012	130,708	1,813,694	1,824,229	1,942,706	1,954,937
Unrestricted	1,645,296	1,298,716	85,758	(526,111)	1,731,054	772,605
Total net position	\$ 2,964,383	\$ 2,514,740	\$ 4,304,859	\$ 4,664,531	\$ 7,269,242	\$ 7,179,271

CHANGE IN NET POSITION

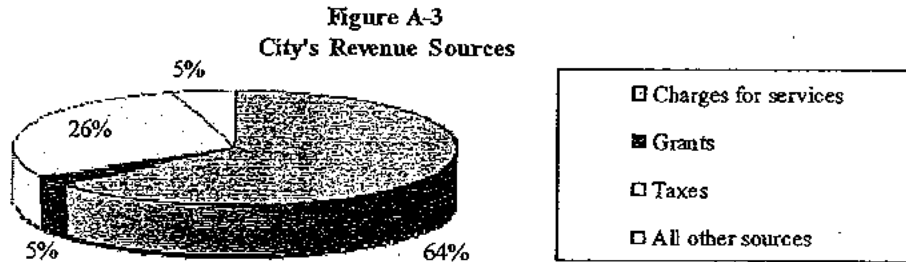
The City's total revenues were \$6,904,317 and total expenses were \$6,814,346, resulting in a change in net position of \$89,971 for the year ended September 30, 2013 (Table A-2).

Table A-2
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 1,045,752	1,017,674	\$ 3,362,485	\$ 3,472,602	\$ 4,408,237	\$ 4,490,276
Grants	199,001	275,487	-	-	199,001	275,487
General revenues:						
Property taxes	1,705,820	1,702,311	-	-	1,705,820	1,702,311
Sales taxes	258,973	234,547	-	-	258,973	234,547
Franchise fees	162,084	184,444	-	-	162,084	184,444
Other	112,727	182,151	49,489	(2,419,091)	162,216	(2,236,940)
Interest income	7,986	8,768	-	5,215	7,986	13,983
Total revenues	3,492,343	3,605,382	3,411,974	1,058,726	6,904,317	4,664,108
Expenses						
General government	266,194	96,826	-	-	266,194	96,826
Public safety	1,692,159	1,658,496	-	-	1,692,159	1,658,496
Fire and rescue	967,306	913,474	-	-	967,306	913,474
Streets	414,709	436,371	-	-	414,709	436,371
Parks and recreation	47,967	47,388	-	-	47,967	47,388
Municipal court	300,966	263,565	-	-	300,966	263,565
Interest on debt	10,891	21,461	224,994	316,844	235,885	338,305
Water	-	-	1,815,610	1,783,475	1,815,610	1,783,475
Sewer	-	-	798,842	857,150	798,842	857,150
Sanitation	-	-	274,708	288,914	274,708	288,914
Total expenses	3,700,192	3,437,581	3,114,154	3,246,383	6,814,346	6,683,964
Excess before transfers	(207,849)	167,801	297,820	(2,187,657)	89,971	(2,019,856)
Transfers	657,492	-	(657,492)	-	-	-
Change in net position	449,643	167,801	(359,672)	(2,187,657)	89,971	(2,019,856)
Beginning net position	2,514,740	2,346,939	4,664,531	6,852,188	7,179,271	9,199,127
Ending net position	\$ 2,964,383	\$ 2,514,740	\$ 4,304,859	\$ 4,664,531	\$ 7,269,242	\$ 7,179,271

REVENUE SOURCES

The majority of the City's revenue comes from charges for services (64% percent) and taxes (26% percent) (Figure A-3).



NET COST OF BUSINESS-TYPE ACTIVITIES

Table A-3 presents the cost of each of the City's business-type activities as well as each function's *net cost* (total cost less charges generated by the activities). The net cost reflects what was added to or used from prior years surplus or fund balance.

**Table A-3
Net Cost of Business-Type Activities**

	Total Cost of Services			%	Net Cost of Services		
	2013	2012	Change		2013	2012	Change
Water	\$ 1,815,610	\$ 1,783,475	2%	\$ 281,936	\$ 406,311	31%	
Sewer	798,842	857,150	-7%	181,662	110,204	65%	
Sanitation	274,708	288,914	-5%	9,727	6,232	56%	
Interest on long-term debt	224,994	316,844	-29%	(224,994)	(316,844)	-	
Totals at historical cost	<u>\$ 3,114,154</u>	<u>\$ 3,246,383</u>	<u>-4%</u>	<u>\$ 248,331</u>	<u>\$ 205,903</u>	<u>*</u>	

* Not a significant measure

LONG-TERM DEBT

At year-end, the City had \$5,313,769 in total outstanding debt (including current portion) as shown in Table A-4. More detailed information about the City's debt is presented in the Notes to the Financial Statements.

**Table A-4
City's Long-Term Debt**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Leases payable	\$ 90,547	\$ 129,509	\$ -	\$ -	\$ 90,547	\$ 129,509
Bonds payable	29,950	42,487	4,835,051	5,332,514	4,865,001	5,375,001
Notes payable	129,264	227,163	228,957	379,966	358,221	607,129
Total	<u>\$ 249,761</u>	<u>\$ 399,159</u>	<u>\$ 5,064,008</u>	<u>\$ 5,712,480</u>	<u>\$ 5,313,769</u>	<u>\$ 6,111,639</u>

CAPITAL ASSETS

At year end, the City had invested \$8,909,252 in a broad range of capital assets including land, equipment, infrastructure, and vehicles (Table A-5).

**Table A-5
City's Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 58,949	\$ 58,949	\$ 229,593	\$ 229,593	\$ 288,542	\$ 288,542
Buildings and improvements	389,260	389,260	227,900	227,900	617,160	617,160
Machinery and equipment	751,934	634,830	332,485	335,330	1,084,419	970,160
Infrastructure	544,940	535,170	15,250,126	15,154,234	15,795,066	15,689,404
Office furniture and equipment	96,984	96,984	19,067	19,067	116,051	116,051
Vehicles	1,526,622	1,559,924	155,957	163,457	1,682,579	1,723,381
Totals at historical cost	3,368,689	3,275,117	16,215,128	16,129,581	19,583,817	19,404,698
Less accumulated depreciation	(1,928,852)	(1,790,596)	(8,745,713)	(8,199,026)	(10,674,565)	(9,989,622)
Net capital assets	\$ 1,439,837	\$ 1,484,521	\$ 7,469,415	\$ 7,930,555	\$ 8,909,252	\$ 9,415,076

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

General fund expenditures exceeded revenues by \$680,683. After considering grants and contributions, sale of capital assets, and transfers from other funds, the fund balance for the City's general fund increased by \$357,966 for the year ended September 30, 2013, which was \$966,087 more than budgeted. This increase was attributed mostly to an increase transfers from the debt service fund and reduction of expenses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The proposed tax rate for the upcoming year will increase to \$0.847224 per \$100 with a budgeted increase in property tax revenue of \$16,756. Sales tax collections are budgeted for an increase of \$44,000, along with a budgeted increase in other general revenue sources. Total general fund revenue is projected to increase \$106,123 in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City Administrator.

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Basic Financial Statements

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CITY OF KEENE
STATEMENT OF NET POSITION
September 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
ASSETS				
Current assets				
Unrestricted:				
Cash and cash equivalents	\$ 1,675,281	\$ 940,449	\$ 2,615,730	\$ -
Receivables, net	171,930	465,718	637,648	48,558
Due from other funds	470,641	(29,463)	441,178	(441,178)
Prepaid expenses	5,345	-	5,345	-
Other assets	6,670	-	6,670	-
Restricted:				
Cash and cash equivalents	27,947	896,744	924,691	299,472
Total current assets	<u>2,357,814</u>	<u>2,273,448</u>	<u>4,631,262</u>	<u>(93,148)</u>
Non-current assets				
Bond issue costs, net	-	22,132	22,132	-
Capital assets:				
Non-depreciable assets	58,949	229,593	288,542	1,668,830
Depreciable assets, net	1,380,888	7,239,822	8,620,710	879,237
Total non-current assets	<u>1,439,837</u>	<u>7,491,547</u>	<u>8,931,384</u>	<u>2,548,067</u>
Total assets	<u>\$ 3,797,651</u>	<u>\$ 9,764,995</u>	<u>\$ 13,562,646</u>	<u>\$ 2,454,919</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 169,454	\$ 128,240	\$ 297,694	\$ 9,910
Due to other governments	-	1,361	1,361	-
Accrued interest	6,383	40,265	46,648	-
Accrued payroll liabilities	51,562	24,037	75,599	-
Deferred revenues	42,977	-	42,977	-
Other payables	92,695	2	92,697	-
Customer deposits	-	181,797	181,797	-
Current portion of long-term debt:				
Notes payable	59,692	150,853	210,545	87,094
Capital leases	38,962	-	38,962	-
Bonds payable	12,537	497,463	510,000	-
Total current liabilities	<u>474,262</u>	<u>1,024,018</u>	<u>1,498,280</u>	<u>97,004</u>
Non-current liabilities				
Notes payable	69,572	78,104	147,676	1,277,313
Capital leases	51,585	-	51,585	-
Bonds payable	17,413	4,337,588	4,355,001	-
Compensated absences	220,436	20,426	240,862	-
Total non-current liabilities	<u>359,006</u>	<u>4,436,118</u>	<u>4,795,124</u>	<u>1,277,313</u>
Total liabilities	<u>\$ 833,268</u>	<u>\$ 5,460,136</u>	<u>\$ 6,293,404</u>	<u>\$ 1,374,317</u>
NET POSITION				
Net investment in capital assets	\$ 1,190,075	\$ 2,405,407	\$ 3,595,482	\$ -
Restricted	129,012	1,813,694	1,942,706	1,080,602
Unrestricted	1,645,296	85,758	1,731,054	-
Total net position	<u>\$ 2,964,383</u>	<u>\$ 4,304,859</u>	<u>\$ 7,269,242</u>	<u>\$ 1,080,602</u>

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

CITY OF KEENE
STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities:				
General government	\$ 266,194	\$ -	\$ -	\$ -
Public safety	1,692,159	102,014	-	908
Fire and rescue	967,306	310,583	188,093	-
Streets	414,709	-	-	-
Parks and recreation	47,967	885	10,000	-
Municipal court	300,966	632,270	-	-
Interest on long-term debt	10,891	-	-	-
Total governmental activities	<u>3,700,192</u>	<u>1,045,752</u>	<u>198,093</u>	<u>908</u>
Business-type activities:				
Water	1,815,610	2,097,546	-	-
Sewer	798,842	980,504	-	-
Sanitation	274,708	284,435	-	-
Interest on long-term debt	224,994	-	-	-
Total business-type activities	<u>3,114,154</u>	<u>3,362,485</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,814,346</u>	<u>\$ 4,408,237</u>	<u>\$ 198,093</u>	<u>\$ 908</u>
Component units	<u>\$ 333,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Taxes
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Sales taxes
Franchise fees
Miscellaneous
Gain from disposal of capital assets
Interest income
Transfers
 Total general revenues
Change in net position
Net position - beginning of year
Net position - end of year

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

Net (Expenses) Revenues and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (266,194)	\$ -	\$ (266,194)	\$ -
(1,589,237)	-	(1,589,237)	-
(468,630)	-	(468,630)	-
(414,709)	-	(414,709)	-
(37,082)	-	(37,082)	-
331,304	-	331,304	-
(10,891)	-	(10,891)	-
<u>(2,455,439)</u>	<u>-</u>	<u>(2,455,439)</u>	<u>-</u>
-	281,936	281,936	-
-	181,662	181,662	-
-	9,727	9,727	-
-	(224,994)	(224,994)	-
-	<u>248,331</u>	<u>248,331</u>	<u>-</u>
\$ (2,455,439)	\$ 248,331	\$ (2,207,108)	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (333,513)</u>
\$ 1,541,511	\$ -	\$ 1,541,511	\$ -
164,309	-	164,309	-
258,973	-	258,973	258,972
162,084	-	162,084	-
91,776	40,739	132,515	3,759
20,951	8,750	29,701	-
7,986	-	7,986	323
657,492	(657,492)	-	-
<u>2,905,082</u>	<u>(608,003)</u>	<u>2,297,079</u>	<u>263,054</u>
449,643	(359,672)	89,971	(70,459)
2,514,740	4,664,531	7,179,271	1,151,061
<u>\$ 2,964,383</u>	<u>\$ 4,304,859</u>	<u>\$ 7,269,242</u>	<u>\$ 1,080,602</u>

**CITY OF KEENE
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2013**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,675,281	\$ -	\$ 1,675,281
Receivables, net:			
Property taxes	66,543	6,580	73,123
Sales taxes	48,558	-	48,558
Ambulance	41,626	-	41,626
Other	8,623	-	8,623
Due from other funds	470,641	-	470,641
Prepaid expenses	5,345	-	5,345
Other assets	6,670	-	6,670
Restricted cash and cash equivalents	693	27,254	27,947
Total assets	<u>\$ 2,323,980</u>	<u>\$ 33,834</u>	<u>\$ 2,357,814</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 169,454	\$ -	\$ 169,454
Deferred revenue	109,519	6,581	116,100
Accrued payroll liabilities	51,562	-	51,562
Other payables	92,695	-	92,695
Total liabilities	<u>423,230</u>	<u>6,581</u>	<u>429,811</u>
Fund balances:			
Restricted for:			
Debt service	-	27,253	27,253
Child safety	3,774	-	3,774
Court security	82,839	-	82,839
Court technology	15,146	-	15,146
Unassigned	1,798,991	-	1,798,991
Total fund balances	<u>1,900,750</u>	<u>27,253</u>	<u>1,928,003</u>
Total liabilities and fund balances	<u>\$ 2,323,980</u>	<u>\$ 33,834</u>	<u>\$ 2,357,814</u>

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

CITY OF KEENE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2013

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 1,928,003

Amounts reported for governmental activities in the statement of net position are different due to the following:

Capital assets, net of accumulated depreciation, are not current financial resources and, therefore, are not reported in the fund-level balance sheet.	1,439,837
Long-term debt obligations which are not due in the current period and therefore, are not reported in the fund-level balance sheet.	(249,761)
Payables for compensated absences which are not due in the current period and, therefore, are not reported in the fund-level balance sheet.	(220,436)
Other liabilities related to long-term debt such as bond issuance costs and accrued interest are not reported in the fund-level balance sheet.	(6,383)
Current-year deferred property tax assessments are not available to pay current-year expenditures and, therefore, are deferred in the fund-level balance sheet.	73,123

NET POSITION - GOVERNMENTAL FUNDS \$ 2,964,383

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

CITY OF KEENE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended September 30, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Property taxes	\$ 1,541,511	\$ 165,497	\$ 1,707,008
Sales taxes	258,973	-	258,973
Franchise fees	162,084	-	162,084
Licenses and permits	47,653	-	47,653
Charges for services	998,099	-	998,099
Investment earnings	7,986	-	7,986
Miscellaneous	91,776	-	91,776
Total revenues	<u>3,108,082</u>	<u>165,497</u>	<u>3,273,579</u>
EXPENDITURES			
Current:			
General government	197,163	-	197,163
Public safety	1,578,374	-	1,578,374
Fire and rescue	863,979	-	863,979
Streets	365,653	-	365,653
Parks and recreation	44,717	-	44,717
Municiple court	300,275	-	300,275
Capital outlay:			
Capitalized	225,480	-	225,480
Non-capitalized	52,835	-	52,835
Debt service:			
Principal	149,398	-	149,398
Interest	10,891	-	10,891
Total expenditures	<u>3,788,765</u>	<u>-</u>	<u>3,788,765</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(680,683)</u>	<u>165,497</u>	<u>(515,186)</u>
OTHER FINANCING SOURCES (USES)			
Operating grants and contributions	198,093	-	198,093
Capital grants and contributions	908	-	908
Proceeds from sale of capital assets	21,867	-	21,867
Transfers in (out)	817,781	(160,289)	657,492
Total other financing sources (uses)	<u>1,038,649</u>	<u>(160,289)</u>	<u>878,360</u>
Net change in fund balances	357,966	5,208	363,174
Fund balances - beginning of year	1,542,784	22,045	1,564,829
Fund balances - end of year	<u>\$ 1,900,750</u>	<u>\$ 27,253</u>	<u>\$ 1,928,003</u>

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

CITY OF KEENE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCE OF GOVERNMENTAL ACTIVITIES TO THE STATEMENT OF ACTIVITIES
 Year ended September 30, 2013

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 363,174

Amounts reported for governmental activities in the statement of activities are different due to the following:

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	225,480
Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported with expenditures in the governmental funds.	(269,248)
Current-year long-term debt principal payments on leases, notes, and other debt are reported as expenditures in the fund financial statements, but are shown as reductions in the long-term debt in the government-wide financial statements.	149,398
Current-year changes in liabilities for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(17,059)
Deferred revenues are recognized in the government-wide financial statements, but not in the fund financial statements.	(1,188)
In the statement of activities, only the gain on the sale of capital assets is reported, whereas the proceeds from the sale increase financial resources at the fund level.	(914)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 449,643

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

CITY OF KEENE
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2013

	Water, Sewer and Sanitation
ASSETS	
Current assets:	
Unrestricted:	
Cash and cash equivalents	\$ 940,449
Customer receivables, net	463,047
Other receivables	2,671
Restricted:	
Cash and cash equivalents	896,744
Total current assets	2,302,911
Non-current assets:	
Bond issue costs, net	22,132
Capital assets:	
Non-depreciable assets	229,593
Depreciable assets, net	7,239,822
Total non-current assets	7,491,547
Total assets	9,794,458
LIABILITIES	
Current liabilities:	
Accounts payable	128,240
Intergovernmental payable	1,361
Due to other funds	29,463
Accrued interest	40,265
Accrued payroll liabilities	24,037
Other payables	2
Customer deposits	181,797
Current portion long-term debt:	
Notes payable	150,853
Bonds payable	497,463
Total current liabilities	1,053,481
Non-current liabilities:	
Notes payable	78,104
Bonds payable	4,337,588
Compensated absences	20,426
Total non-current liabilities	4,436,118
Total liabilities	5,489,599
NET POSITION	
Net investment in capital assets	2,405,407
Restricted for:	
Debt service	1,631,897
Deposits	181,797
Unrestricted	85,758
Total net position	\$ 4,304,859

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

CITY OF KEENE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended September 30, 2013

	<u>Water, Sewer and Sanitation</u>
OPERATING REVENUES	
Water charges	\$ 2,061,524
Wastewater charges	959,832
Sanitation fees	279,146
Penalties	61,983
Total operating revenues	<u>3,362,485</u>
OPERATING EXPENSES	
Personnel services	404,019
Contracted services	220,108
Administrative	702,810
Water purchases	290,853
Utilities	218,399
Repairs and maintenance	288,285
Permits and fees	9,707
Material and supplies	115,620
Depreciation and amortization	583,653
Bad debts	55,706
Total operating expenses	<u>2,889,160</u>
Operating income	<u>473,325</u>
NON-OPERATING REVENUES (EXPENSES)	
Miscellaneous income	40,739
Interest expense	(224,994)
Transfers from other funds	(657,492)
Gain on disposal of capital assets	8,750
Total non-operating revenues (expenses)	<u>(832,997)</u>
Change in net position	(359,672)
Net position - beginning of year	4,664,531
Net position - end of year	<u>\$ 4,304,859</u>

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

CITY OF KEENE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 3,282,979
Cash payments to employees for services	(397,248)
Cash payments to suppliers of goods and services	(1,793,784)
Net cash from operating activities	<u>1,091,947</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Proceeds from donations	40,739
Proceeds from insurance	1,312
Net payments from governmental fund	(671,130)
Net cash from non-capital financing activities	<u>(629,079)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from disposal of assets	10,583
Purchase of capital assets	(102,214)
Proceeds from long-term debt	413,451
Principal payments on debt	(1,061,923)
Interest payments on debt	(211,736)
Net cash from capital and related financing activities	<u>(951,839)</u>
Net change in cash and cash equivalents	(488,971)
Cash and cash equivalents - beginning of year	2,326,164
Cash and cash equivalents - end of year	<u>\$ 1,837,193</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:	
Operating income	\$ 473,325
Adjustments not affecting cash:	
Depreciation and amortization	583,653
Bad debts	55,706
Gain on sale of assets	(8,750)
(Increase) decrease in assets and increase (decrease) in liabilities:	
Increase in accounts receivable, net	(60,333)
Increase in accounts payable	53,237
Increase in accrued compensation	2,752
Increase in other accrued liabilities	2,892
Decrease in customer deposits	(10,535)
Net cash from operating activities	<u>\$ 1,091,947</u>
SUPPLEMENTAL INFORMATION:	
Cash and cash equivalents at September 30, 2013 consisted of the following:	
Cash and cash equivalents - unrestricted	\$ 940,449
Cash and cash equivalents - restricted	896,744
Total cash and cash equivalents - end of year	<u>\$ 1,837,193</u>

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

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Keene, Texas (City) is a Home Rule city which citizens elect the mayor and six council members at large. Each ward is represented by two council members. The City operates under the Mayor-Council form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable. The criteria considered in determining activities to be reported within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization of the City

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

Keene Economic Development Corporation (KEDC) is a *discrete component unit*. The KEDC was formed to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, and on behalf of, the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4A of the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

Keene Community Development Corporation (KCDC) is a *discrete component unit*. The KCDC was formed exclusively for the purposes of benefiting and accomplishing public purposes of, and acting on behalf of, the City in promotion and development of public projects, approved by the voters at an election held on November 3, 1998, including, but not limited to, tourism facilities, civic center, downtown/main street renovation and/or development, drainage and related improvements, parks, youth center, sports facilities, public safety facilities, municipal facilities, library facilities, water, sewer and street extensions, any other project that the Board determines as contributing to the promotion or development of new or expanded business enterprises and other related improvements, and any other project authorized under Section 4B of the Development Act of 1979. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

Keene Health Facilities Development Corp (KHFDC) is a *discrete component unit*. The KHFDC was formed pursuant to the Health Facilities Development Act [Chapter 221 of the Texas Health and Safety Code (the "HFDC Act")] for the sole public purpose of acquiring, constructing, providing, improving, financing, and refinancing a health facility to assist in the maintenance of public health within the City. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of funds in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Keene Industrial Development Corp (KIDC) is a *discrete component unit*. The KIDC was formed pursuant to the Development Corporation Act, Subtitle C1 [Chapter 501 of the Development Corporation Act] of the Texas Local Government Code for the sole purpose of acquiring, maintaining, leasing, and selling property, and interests therein, as authorized by the Act to promote development within the City and the State of Texas in order to eliminate unemployment and under-employment and to promote and encourage employment and the public welfare of, for, and on behalf of the City of Keene, Texas in accordance with the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of funds in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Government-wide financial statements do not provide information by individual fund or fund types, but distinguish between the City's governmental activities and business-type activities on the Statement of Net Position and Statement of Activities. The statements report information on all of the non-fiduciary activities of the primary government and its component units. The City's Statement of Net Position includes both non-current assets and non-current liabilities of the City. Accrual accounting reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Additionally, the government-wide financial Statement of Activities reflects depreciation expense on the City's capital assets, including infrastructure.

Statement of Net Position

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). The City reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense -- the cost of "using up" capital assets -- in the Statement of Activities. The net position of the City is broken down into three categories: 1) net invested in capital assets; 2) restricted; and 3) unrestricted. Long-term liabilities are reported in two categories: 1) the amount due within one year; and 2) the amount due in more than one year.

Statement of Activities

The government-wide Statement of Activities reports net (expense) revenue in a format that focuses on the cost of each of the City's governmental activities and for each of the business-type activities of the City. The expense of individual functions is compared to revenues generated directly by the function (for instance, through user charges or intergovernmental grants). General revenues (including all taxes), investment earnings, special and extraordinary items, and transfers between governmental and business-type activities are reported separately after the total net expenses of the government's functions, ultimately arriving at the change in net position for the period. Program revenues are segregated into three categories: 1) charges for services; 2) program-specific operating grants and contributions; and 3) program-specific capital grants and contributions. Indirect costs are allocated among functions based on use.

Fund Level Financial Statements

In addition to the government-wide financial statements, the City prepares fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus. The focus on the fund financial statements is on the major individual funds of the governmental and business-type activities, as well as any fiduciary funds (by category) and any component units.

The City reports the following major funds:

General Fund – Governmental fund that reports as the primary fund of the City. This fund is used to account for all financial resources not reported in any other funds.

Debt Service Fund – Governmental fund which accounts for the accumulation of financial resources for the payment of principal and interest on the City's debt.

Water, Sewer and Sanitation Fund – Enterprise fund which accounts for the operating activities of the City's water, sewer, and sanitation services.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund level financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. *Available* means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include sales and property taxes and third party revenues for ambulance services. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note D for information describing the City's restricted assets.

Assets, Liabilities, and Net Assets or Equity

Cash and cash equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Capital assets

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective funds. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. For information describing capital assets, see Note E. Estimated useful lives, in years, for depreciable assets are as follows:

Vehicles	5
Machinery and equipment	5-10
Building improvements	20
Infrastructure	30
Buildings	40

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and prepaid items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Long-Term Debt

In the government-wide and proprietary fund level financial statements, outstanding debt is reported as liabilities. Outstanding debt is reported within governmental activities and business-type activities based on use of proceeds. Bond issue costs are capitalized and amortized over the terms of the respective bonds using the straight-line method. The governmental fund level financial statements recognize the proceeds of debt as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The government-wide and fund level financial statements report reserved fund balances for amounts not available for appropriation or legally restricted for specific uses. In the fiscal year ended September 30, 2011, the City implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Nonspendable fund balance – Includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted fund balance – Includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include impact fees and bond proceeds.

Committed fund balance – Includes the portion of net resources upon which Council has imposed limitations on use. Amounts can be used only for the specific purposes determined by a formal action of the council. Commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned fund balance – Includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance – Includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Revenues and Expenditures/Expenses

Inter-Fund Activity

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers-in and transfers-out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, inter-fund receivables and payables, if applicable, are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminating employees is reported.

Use of Estimates

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

B. DEPOSITS AND INVESTMENTS

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

Cash Deposits

At September 30, 2013, the total carrying amounts of the City's deposits (restricted and unrestricted cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were \$3,540,421 and the bank balances were \$3,603,033. While there were days which the bank balance exceeded FDIC coverage during the year, the City's cash deposits at September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. At September 30, 2013, the carrying amount of the KEDC and KCDC's deposits were \$70,316 and \$198,991, respectively, and the bank balances were \$72,031 and \$208,666, respectively. The KEDC and KCDC's cash deposits were entirely covered by FDIC insurance during the year.

Analysis of Specific Deposit and Investment Risks

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the City was not exposed to a significant amount of credit risk.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year-end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

B. DEPOSITS AND INVESTMENTS (Continued)

Investment Accounting Policy

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

C. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Sales Taxes Receivable

Sales taxes are collected and remitted to the City by the State Comptroller's Office. All sales taxes are collected within sixty days of year end. At fiscal year end, the receivables represent taxes collected but not yet received by the City and are recorded as revenue.

Property Taxes Receivable and Deferred Revenue

Property taxes are assessed and remitted to the City by the Johnson County Tax Assessor's Office. Taxes, levied annually on October 1, are due by January 31. Major tax payments are received December through March. Lien dates for real property are in July.

Allowances for uncollectible tax receivables reported in the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislature.

In the governmental fund level financial statements, property taxes receivable are recorded in the General Fund when assessed (October 1). At fiscal year end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within sixty days of fiscal year end, they are recorded as deferred revenue.

In the government-wide financial statements, property tax receivables and related revenues include all amounts due the City regardless of when cash is received.

Governmental Activities Receivables

At September 30, 2013, receivables are summarized in the government-wide financial statements as follows:

	<u>Receivables</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Receivables</u>
Governmental Activities:			
Sales taxes	\$ 48,558	\$ -	\$ 48,558
Property taxes	120,413	(47,290)	73,123
Ambulance receipts	948,412	(906,786)	41,626
Other	8,623	-	8,623
Total receivables, net	<u>\$ 1,126,006</u>	<u>\$ (954,076)</u>	<u>\$ 171,930</u>

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

C. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE (Continued)

Business-type Activities Receivables

Customer receivables represent amounts due from customers for water, wastewater, and sanitation services. These receivables are due within one month. Receivables are reported net of an allowance for uncollectible accounts and revenues net of what is estimated to be uncollectible. The allowance is estimated using accounts receivable past due more than ninety days.

At September 30, 2013, enterprise receivables are summarized in the financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Business-type activities:			
Accounts receivable from customers	\$ 796,607	\$ (333,560)	\$ 463,047
Other receivables	2,671	-	2,671
Total receivables, net	<u>\$ 799,278</u>	<u>\$ (333,560)</u>	<u>\$ 465,718</u>

D. RESTRICTED ASSETS

At September 30, 2013, restricted assets consisted of the following:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents:			
Customer deposits	\$ -	\$ 181,797	\$ 181,797
Debt interest and sinking	27,254	714,947	742,201
Healthcare insurance	68	-	68
Volunteer fire department	625	-	625
Total cash and cash equivalents	<u>\$ 27,947</u>	<u>\$ 896,744</u>	<u>\$ 924,691</u>

E. INTER-FUND BALANCES AND ACTIVITY

Balances due to and from other funds at September 30, 2013 consisted of the following:

Due To	Due From	Amount
General Fund	Economic Development Fund	\$ 422,240
General Fund	Industrial Development	7,833
Community Development Fund	General Fund	3,055
General Fund	Health Facilities Development Fund	14,160
General Fund	Utility Fund	29,463
Community Development	Health Facilities Development Fund	10,600
		<u>\$ 487,351</u>

All amounts scheduled to be repaid within one year.

Transfers to and from other funds at September 30, 2013 consisted of the following:

Transfer To	Transfer From	Amount	Reason
General Fund	Water and Sewer Fund	\$ 657,492	Cash transfer
General Fund	Debt Service Fund	160,289	Payment of debt
		<u>\$ 817,781</u>	

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

F. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 was as follows:

<u>Governmental activities</u>	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets not being depreciated:</i>				
Land	\$ 58,949	\$ -	\$ -	\$ 58,949
Total capital assets not being depreciated	<u>58,949</u>	<u>-</u>	<u>-</u>	<u>58,949</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	389,260	-	-	389,260
Machinery and equipment	634,830	121,687	4,583	751,934
Infrastructure	535,170	9,770	-	544,940
Office furniture and equipment	96,984	-	-	96,984
Vehicles	1,559,924	94,023	127,325	1,526,622
Total capital assets being depreciated	<u>3,216,168</u>	<u>225,480</u>	<u>131,908</u>	<u>3,309,740</u>
Less accumulated depreciation	<u>(1,790,596)</u>	<u>(269,247)</u>	<u>(130,991)</u>	<u>(1,928,852)</u>
Total capital assets being depreciated, net	<u>1,425,572</u>	<u>(43,767)</u>	<u>917</u>	<u>1,380,888</u>
Governmental activities capital assets, net	<u>\$ 1,484,521</u>	<u>\$ (43,767)</u>	<u>\$ 917</u>	<u>\$ 1,439,837</u>
<u>Business-type activities</u>	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets not being depreciated:</i>				
Land	\$ 229,593	\$ -	\$ -	\$ 229,593
Total capital assets not being depreciated	<u>229,593</u>	<u>-</u>	<u>-</u>	<u>229,593</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	227,900	-	-	227,900
Machinery and equipment	335,330	6,322	9,167	332,485
Infrastructure	15,154,234	95,892	-	15,250,126
Office furniture and equipment	19,067	-	-	19,067
Vehicles	163,457	-	7,500	155,957
Total capital assets being depreciated	<u>15,899,988</u>	<u>102,214</u>	<u>16,667</u>	<u>15,985,535</u>
Less accumulated depreciation	<u>(8,199,026)</u>	<u>(561,521)</u>	<u>(14,834)</u>	<u>(8,745,713)</u>
Total capital assets being depreciated, net	<u>7,700,962</u>	<u>(459,307)</u>	<u>1,833</u>	<u>7,239,822</u>
Business-type activities capital assets, net	<u>\$ 7,930,555</u>	<u>\$ (459,307)</u>	<u>\$ 1,833</u>	<u>\$ 7,469,415</u>

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

F. CAPITAL ASSETS (Continued)

Depreciation was charged to functions as follows:

<u>Governmental activities:</u>		<u>Business-type activities:</u>	
General government	\$ 14,859	Water	\$ 280,760
Public safety	101,742	Sewer	280,761
Fire	100,459		<u>\$ 561,521</u>
Streets	48,941		
Parks	3,246		
Total depreciation	<u>\$ 269,247</u>		

Amortization of bond costs were charged to functions as follows:

	<u>Business-type activities:</u>	
	Water	\$ 22,132
		<u>\$ 22,132</u>
Total depreciation and amortization		<u>\$ 583,653</u>

G. LONG-TERM OBLIGATIONS

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2013 are as follows:

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 227,163	\$ -	\$ 97,899	\$ 129,264	\$ 59,802
Capital leases payable	129,509	-	37,726	91,783	38,962
Bonds payable	42,487	-	12,537	29,950	12,537
Compensated absences	203,377	17,059	-	220,436	-
Total governmental activities	<u>\$ 602,536</u>	<u>\$ 17,059</u>	<u>\$ 148,162</u>	<u>\$ 471,433</u>	<u>\$ 111,301</u>
<u>Business-type Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 379,966	\$ -	\$ 151,009	\$ 228,957	\$ 150,853
Bonds payable	5,332,514	-	497,463	4,835,051	497,463
Compensated absences	17,533	-	(2,893)	20,426	-
Total business-type activities	<u>\$ 5,730,013</u>	<u>\$ -</u>	<u>\$ 645,579</u>	<u>\$ 5,084,434</u>	<u>\$ 648,316</u>

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

G. LONG-TERM OBLIGATIONS (Continued)

Debt service requirements on long-term debt at September 30, 2013 are as follows:

Bonds Payable

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 12,537	\$ 671	\$ 13,208
2015	17,413	226	17,639
Totals	\$ 29,950	\$ 897	\$ 30,847

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2014	\$ 497,463	\$ 183,771	\$ 681,234
2015	528,006	165,564	693,570
2016	70,000	154,894	224,894
2017	70,000	152,006	222,006
2018	75,000	149,016	224,016
2019 - 2023	425,000	694,753	1,119,753
2024 - 2028	525,000	597,609	1,122,609
2029 - 2033	650,000	476,438	1,126,438
2034 - 2038	785,000	329,072	1,114,072
2039 - 2043	970,000	148,500	1,118,500
2044 - 2048	239,582	4,538	244,120
Totals	\$ 4,835,051	\$ 3,056,161	\$ 7,891,212

The effective interest rate on outstanding bonds ranged from 3.38% - 4.13% at September 30, 2013.

Notes payable

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 59,802	\$ 5,035	\$ 64,837
2015	56,584	2,776	59,360
2016	12,988	473	13,461
Totals	\$ 129,374	\$ 8,284	\$ 137,658

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2014	\$ 150,853	\$ 5,125	\$ 155,978
2015	78,104	1,073	79,177
Totals	\$ 228,957	\$ 6,198	\$ 235,155

The effective interest rates on outstanding notes ranged from 3.75% - 6.50% at September 30, 2013. The carrying value of assets collateralized by notes payable for the governmental and business-type activities are \$159,012 and \$24,677 respectively.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

G. LONG-TERM OBLIGATIONS (Continued)

Capital Leases

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 38,962	\$ 3,210	\$ 42,172
2015	32,216	1,546	33,762
2016	19,369	220	19,589
Totals	<u>\$ 90,547</u>	<u>\$ 4,976</u>	<u>\$ 95,523</u>

The effective interest rates on capital leases outstanding ranged from 4.00% to 4.52% at September 30, 2013. The gross value and carrying value of assets collateralized by notes payable for the governmental activities are \$334,513 and \$56,779, respectively.

Component Units Notes Payable

<u>Year Ending September 30,</u>	<u>Keene Economic Development Corporation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 39,338	\$ 43,325	\$ 82,663
2015	41,015	41,647	82,662
2016	42,671	39,992	82,663
2017	44,605	38,058	82,663
2018	46,500	42,898	89,398
2019 - 2023	264,138	229,896	494,034
2024 - 2028	326,208	169,849	496,057
2029 - 2033	237,190	103,047	340,237
Totals	<u>\$ 1,041,665</u>	<u>\$ 708,712</u>	<u>\$ 1,750,377</u>

The effective interest rates on outstanding notes ranged from 3.50% - 4.75% at September 30, 2013. The carrying value of assets collateralized by notes payable are \$1,355,078.

<u>Year Ending September 30,</u>	<u>Keene Community Development Corporation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 47,756	\$ 12,916	\$ 60,672
2015	49,821	10,851	60,672
2016	51,970	9,149	61,119
2017	43,186	6,491	49,677
2018	19,436	5,237	24,673
2019 - 2023	110,567	12,794	123,361
Totals	<u>\$ 322,736</u>	<u>\$ 57,438</u>	<u>\$ 380,174</u>

The effective interest rates on outstanding notes ranged from 3.25% - 4.25% at September 30, 2013. The carrying value of assets collateralized by notes payable are \$331,156.

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

H. FUND EQUITY RESTRICTIONS AND COMMITMENTS

At September 30, 2013, restricted, committed, and assigned net assets consisted of the following:

	Governmental Activities	Business-type Activities	Total
Restricted for:			
Debt service	\$ 27,253	\$ 1,631,897	\$ 1,659,150
Child safety	15,146	-	15,146
Court security	3,774	-	3,774
Court technology	82,839	-	82,839
Customer deposits	-	181,797	181,797
Total restricted	\$ 129,012	\$ 1,813,694	\$ 1,942,706

Amounts not restricted by debt service above are restricted by enabling legislation.

I. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

J. PENSION PLAN

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. This report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. The report may be obtained by writing to TMRS, P. O. Box 149153, Austin, TX 78714-9153, or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

J. PENSION PLAN (Continued)

Plan Provisions

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 are as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee Deposit Rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/year of service)	60/5, 0/25	60/5, 0/25
	100%	100%
Updated service credit	Repeating, Transfers	Repeating, Transfers
	70% of CPI	70% of CPI
Annuity increase (to retirees)	Repeating	Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS 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 net pension obligation/(asset) are as follows:

Fiscal year ended September 30,	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation/ (Asset)</u>
2011	\$ 227,478	\$ 227,478	100%	\$ -
2012	313,541	313,541	100%	-
2013	\$ 325,111	\$ 325,111	100%	\$ -

(Continued)

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

J. PENSION PLAN (Continued)

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, September 30, 2013, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.1 years; closed period	26.1 years; closed period	25.3 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustment	2.1%	2.1%	2.1%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (a) / (b)	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll	UAAL as a % of Covered Payroll (d) - (e)
12/31/2012	\$ 5,230,088	\$ 7,023,680	74.5%	1,793,592	\$ 2,160,185	83.0%

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.

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

K. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

Plan Provisions

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

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 the employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were as follows:

<u>Plan/Calendar Year</u>	<u>Annual Required Contribution Rate (ARC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of ARC Contributed</u>
2010	0.03%	0.03%	100%
2011	0.03%	0.03%	100%
2012	0.03%	0.03%	100%

L. HEALTH CARE COVERAGE

During the year ended September 30, 2013, employees of the City were covered by the TML Intergovernmental Employee Benefits Pool (the Plan). The City paid premiums of \$422,789 to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, and terms of coverage and premium costs are included in the contractual provisions.

CITY OF KEENE
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2013

M. COMMITMENTS AND CONTINGENCIES

Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

The City is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City's financial position, results of operations, or cash flows.

N. NEW ACCOUNTING PRINCIPLES

Significant new accounting standards issued included the following:

Statement No. 61 ("GASB 61"), *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* is effective for reporting periods beginning after June 15, 2012 with earlier implementation recommended. This statement is designed to improve financial reporting for governmental entities to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. In addition, this statement amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. This statement is effective for the City's financial periods beginning October 1, 2012.

Statement No. 62 *Codification of the Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued in December 2010. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This statement is effective for the City's financial periods beginning October 1, 2012.

Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. This Statement is effective for the City's financial periods beginning October 1, 2012.

O. SUBSEQUENT EVENTS

There were no subsequent events identified by management as of the issuance date of these financial statements.

Required Supplementary Information

CITY OF KEENE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
For the Year Ended September 31, 2013
(Unaudited)

	Budgets		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,514,538	\$ 1,514,538	\$ 1,541,511	\$ 26,973
Sales taxes	228,000	228,000	258,973	30,973
Franchise taxes	181,000	181,000	162,084	(18,916)
License and permits	32,500	32,500	47,653	15,153
Charges for services	1,230,682	1,230,682	998,099	(232,583)
Investment earnings	6,000	6,000	7,986	1,986
Miscellaneous	278,702	293,702	91,776	(201,926)
Total revenues	<u>3,471,422</u>	<u>3,486,422</u>	<u>3,108,082</u>	<u>(378,340)</u>
EXPENDITURES				
General government	398,342	413,342	197,163	216,179
Public safety	1,680,796	1,680,796	1,578,374	102,422
Fire and rescue	865,466	865,466	863,979	1,487
Streets	471,091	471,091	365,653	105,438
Parks and recreation	47,571	47,571	44,717	2,854
Municipal court	410,867	410,869	300,275	110,594
Debt service:				
Principal	146,175	146,175	149,398	(3,223)
Interest	-	-	10,891	(10,891)
Capital outlay	313,066	323,066	278,315	44,751
Total expenditures	<u>4,333,374</u>	<u>4,358,376</u>	<u>3,788,765</u>	<u>569,611</u>
Excess (deficiency) of revenues Over (under) expenditures	<u>(861,952)</u>	<u>(871,954)</u>	<u>(680,683)</u>	<u>191,271</u>
OTHER FINANCING SOURCES (USES)				
Capital grants and contributions	-	-	908	908
Operating grants and contributions	253,833	263,833	198,093	(65,740)
Sale of capital assets	-	-	21,867	21,867
Transfers in from other funds	-	-	817,781	817,781
Total other financing sources (uses)	<u>36,967</u>	<u>263,833</u>	<u>1,038,649</u>	<u>774,816</u>
Change in fund balance	(824,985)	(608,121)	357,966	966,087
Fund balance - beginning of year	1,542,784	1,542,784	1,542,784	
Fund balance - end of year	<u>\$ 717,799</u>	<u>\$ 934,663</u>	<u>1,900,750</u>	<u>\$ 966,087</u>
RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)				
Net invested in capital assets			1,190,075	
Revenue accruals			73,123	
Expenditure accruals			(226,818)	
FUND BALANCE - END OF YEAR (GAAP)			<u>2,937,130</u>	
OTHER FUND BALANCES - END OF YEAR (GAAP)				
Debt service fund			27,253	
TOTAL FUND BALANCES - END OF YEAR (GAAP)			<u>\$ 2,964,383</u>	

See notes to required supplementary information.

CITY OF KEENE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2013
(Unaudited)

A. GENERAL FUND BUDGETARY ANALYSIS

Budgetary Information

The City Council adopts an annual budget prepared on a non-GAAP cash basis. City management may transfer part or all of any unencumbered appropriation balance within specific categories (i.e., personnel, operations, supplies, or capital outlay) within programs; however, any revisions that alter the total expenditures of the categories must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds, and the legal level of control is the fund level.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the debt service fund or in the general fund. Revised budgets, if any, are used for budget versus actual comparisons.

Reconciliation of Non-GAAP Budgetary Information to GAAP Information

Because the City budgets on a non-GAAP cash basis, which includes capital outlay expenditures and debt payments in operating expenditure categories, these expenditures were reclassified for budgetary comparison purposes. General fund capital assets purchased in the current year and debt payments related to capital asset purchases are presented as other financing uses. The General Fund non-GAAP fund balance is reconciled to GAAP basis by showing all investments in capital assets net of related debt, revenue accruals, expenditure accruals, and intrafund transfer eliminations.

B. BUDGET VERSUS ACTUAL RESULTS

Operating revenues and expenditures in the general fund were less than budgeted by \$378,340 and \$569,611, respectively, resulting in an overall favorable operating variance of \$191,271. In addition, the City received and expended \$198,093 in operating grants and contributions.

CITY OF KEENE
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
 (Unaudited)
 September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	4,009,063	5,883,585	68%	1,874,522	1,957,915	96%
12/31/2011	4,590,488	6,299,048	73%	1,708,560	2,038,566	84%
12/31/2012	5,230,088	7,023,680	74%	1,793,592	2,160,185	83%

Other Supplementary Information

**CITY OF KEENE
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNITS
September 30, 2013**

	<u>Type A Economic Development</u>	<u>Type B Community Development</u>	<u>Health Facilities Development</u>	<u>Industrial Development</u>	<u>Total Component Units</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 70,316	\$ 198,991	\$ 10,330	\$ 19,835	\$ 299,472
Receivables, net:					
Sales taxes	24,279	24,279	-	-	48,558
Due from other funds	-	13,655	-	-	13,655
Total current assets	<u>94,595</u>	<u>236,925</u>	<u>10,330</u>	<u>19,835</u>	<u>361,685</u>
Non-current assets:					
Non-depreciable assets	1,449,375	219,455	-	-	1,668,830
Depreciable assets, net	582,137	297,100	-	-	879,237
Total non-current assets	<u>2,031,512</u>	<u>516,555</u>	<u>-</u>	<u>-</u>	<u>2,548,067</u>
Total assets	<u>\$ 2,126,107</u>	<u>\$ 753,480</u>	<u>\$ 10,330</u>	<u>\$ 19,835</u>	<u>\$ 2,909,752</u>
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Current portion long-term debt	\$ 39,338	\$ 47,756	\$ -	\$ -	\$ 87,094
Accounts payable	342	9,568	-	-	9,910
Due to other funds	422,240	-	24,760	7,833	454,833
Total current liabilities	<u>461,920</u>	<u>57,324</u>	<u>24,760</u>	<u>7,833</u>	<u>551,837</u>
Non-current liabilities:					
Notes payable	1,002,334	274,979	-	-	1,277,313
Total liabilities	<u>1,464,254</u>	<u>332,303</u>	<u>24,760</u>	<u>7,833</u>	<u>1,829,150</u>
Fund balances:					
Unrestricted	661,853	421,177	(14,430)	12,002	1,080,602
Total fund balances	<u>661,853</u>	<u>421,177</u>	<u>(14,430)</u>	<u>12,002</u>	<u>1,080,602</u>
Total liabilities and fund balances	<u>\$ 2,126,107</u>	<u>\$ 753,480</u>	<u>\$ 10,330</u>	<u>\$ 19,835</u>	<u>\$ 2,909,752</u>

CITY OF KEENE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS
Year ended September 30, 2013

	Type A Economic Development	Type B Community Development	Health Facilities Development	Industrial Development	Total Governmental Funds
REVENUES					
Sales taxes	\$ 129,486	\$ 129,486	\$ -	\$ -	\$ 258,972
Investment earnings	79	244	-	-	323
Miscellaneous	259	-	3,500	-	3,759
Total revenues	<u>129,824</u>	<u>129,730</u>	<u>3,500</u>	<u>-</u>	<u>263,054</u>
EXPENDITURES					
Administration	7,257	6,892	-	876	15,025
Advertising	1,100	8,266	-	-	9,366
Business incentives	-	6,282	-	-	6,282
Community projects	32,663	3,660	-	-	36,323
Depreciation	18,629	55,152	-	-	73,781
Director salary	20,000	20,000	-	-	40,000
Equipment	1,617	-	-	-	1,617
Infrastructure development	59,450	-	-	-	59,450
Interest	45,711	4,908	-	-	50,619
Legal and accounting	3,206	7,950	-	-	11,156
Park maintenance	16,267	10,000	-	-	26,267
Property tax	1,914	-	-	-	1,914
Technology	-	1,713	-	-	1,713
Total expenditures	<u>207,814</u>	<u>124,823</u>	<u>-</u>	<u>876</u>	<u>333,513</u>
Net change in fund balances	(77,990)	4,907	3,500	(876)	(70,459)
Fund balances - beginning of year	739,843	416,270	(17,930)	12,878	1,151,061
Fund balances - end of year	<u>\$ 661,853</u>	<u>\$ 421,177</u>	<u>\$ (14,430)</u>	<u>\$ 12,002</u>	<u>\$ 1,080,602</u>

