

CITY OF BONHAM, TEXAS

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT THEREON

SEPTEMBER 30, 2013

CITY OF BONHAM, TEXAS
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September 30, 2013

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**Report on Basic Financial Statements
Accompanied by Required Supplementary
Information and Supplementary Information
Including the Supplementary Schedules of
Expenditures of Federal Awards**

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Bonham, 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 aggregate remaining fund information of the City of Bonham, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bonham, 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 budgetary comparison information and the Texas Municipal Retirement System Schedule of Funding Progress 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 Bonham, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and Members
of the City Council
City of Bonham, Texas
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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2014, on our consideration of the City of Bonham, Texas', internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Bonham, Texas', internal control over financial reporting and compliance.

McClendon and Hulm, LLP
Certified Public Accountants

Bonham, Texas
February 7, 2014

CITY OF BONHAM, TEXAS
Management's Discussion and Analysis
September 30, 2013

As management of the City of Bonham, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. The information presented for the year ended September 30, 2012, in the Summary Statement of Net Position and the Summary Statement of Activities shown below are included for comparative purposes only.

BASIC FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. There are two statements that make up the government-wide financial statements. These are the Statement of Net Position and the Statement of Activities. Both of these statements include not only the City itself (known as the primary government) but also aggregate information of one legally separate component unit for which the City is financially accountable (Bonham Economic Development Corporation). The component unit is reported separately from the financial information of the primary government itself and issues separately audited financial statements.

The Statement of Net Position presents information on all the City's assets and liabilities with the difference shown as net position. The Statement of Activities presents information showing how the City's net position changed during the current fiscal year.

Fund financial statements provide financial information on specific funds maintained by the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City are divided into three categories: 1) government funds 2) proprietary funds and 3) fiduciary funds.

Governmental funds focus on short-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year, which are useful in evaluating the City's short-term financing requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A portion of the City's net position (58%) reflects its investment in capital assets (more fully described in Note 5 of the financial statements) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Therefore, these assets are not available for future spending. Although the City's investment in 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 capital assets themselves cannot be used to liquidate these liabilities.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The City's proprietary fund is the water and sewer fund that is an enterprise fund used to account for water and sewer operations. This fund is presented in the government-wide financial statements as a business-type activity. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds report assets held in a trustee or agency capacity. The City's fiduciary funds comprise of a Volunteer Fireman's Incentive fund and an agency fund used to transfer money for salaries and related expenses.

Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF BONHAM, TEXAS
Management's Discussion and Analysis
September 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summary statements of net position and activities are presented for the primary government only:

Summary Statement of Net Position
(Amounts in Thousands of Dollars)
September 30,

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<u>Assets</u>						
Capital Assets, Net	\$ 5,685	\$ 5,705	\$ 16,535	\$ 16,962	\$ 22,220	\$ 22,667
Other Assets	<u>2,972</u>	<u>2,927</u>	<u>3,766</u>	<u>4,422</u>	<u>6,738</u>	<u>7,349</u>
Total Assets	<u>8,657</u>	<u>8,632</u>	<u>20,301</u>	<u>21,384</u>	<u>28,958</u>	<u>30,016</u>
 <u>Liabilities</u>						
Long-Term Liabilities	6,448	6,073	11,477	11,962	17,925	18,035
Other Liabilities	<u>348</u>	<u>455</u>	<u>788</u>	<u>1,025</u>	<u>1,136</u>	<u>1,480</u>
Total Liabilities	<u>6,796</u>	<u>6,528</u>	<u>12,265</u>	<u>12,987</u>	<u>19,061</u>	<u>19,515</u>
 <u>Net Position</u>						
Net Investment in Capital Assets	36	371	5,658	6,072	5,694	6,443
Restricted	4	82	265	286	269	368
Unrestricted	<u>1,821</u>	<u>1,651</u>	<u>2,113</u>	<u>2,039</u>	<u>3,934</u>	<u>3,690</u>
Total Net Position	<u>\$ 1,861</u>	<u>\$ 2,104</u>	<u>\$ 8,036</u>	<u>\$ 8,397</u>	<u>\$ 9,897</u>	<u>\$ 10,501</u>
 Revenue:						
Program Revenue:						
Charges for Services	\$ 2,758	\$ 2,595	\$ 6,893	\$ 6,690	\$ 9,651	\$ 9,285
Operating Grants and Contributions	203	241	-	-	203	241
Capital Grants and Contributions	180	44	35	-	215	44
General Revenue:						
Taxes	3,521	3,466	-	-	3,521	3,466
Miscellaneous Revenue	404	386	34	24	438	410
Interest on Investments	<u>2</u>	<u>4</u>	<u>3</u>	<u>10</u>	<u>5</u>	<u>14</u>
Total Revenue	<u>7,068</u>	<u>6,736</u>	<u>6,965</u>	<u>6,724</u>	<u>14,033</u>	<u>13,460</u>

CITY OF BONHAM, TEXAS
Management's Discussion and Analysis
September 30, 2013

Summary Statement of Net Position
(Amounts in Thousands of Dollars)
September 30,

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Expenses:						
Administration	2,453	2,416	-	-	2,453	2,416
Police	1,971	1,977	-	-	1,971	1,977
Fire	926	908	-	-	926	908
Equipment Services	49	52	-	-	49	52
Street	860	1,047	-	-	860	1,047
Sanitation	580	432	-	-	580	432
Library	233	227	-	-	233	227
Airport	109	94	-	-	109	94
Park and Recreation	277	300	-	-	277	300
Tourism	39	20	-	-	39	20
Lake Bonham	108	101	-	-	108	101
Grants	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Interest on Long-Term Debt	246	272	-	-	246	272
Emergency Medical Services	-	-	2,202	2,178	2,202	2,178
Water/Sewer	-	-	4,070	3,770	4,070	3,770
Total Expenses	<u>7,851</u>	<u>7,846</u>	<u>6,272</u>	<u>5,948</u>	<u>14,123</u>	<u>13,794</u>
Increase (Decrease) in Net Position before Transfers	(783)	(1,110)	693	776	(90)	(334)
Transfers	<u>815</u>	<u>814</u>	<u>(815)</u>	<u>(814)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	32	(296)	(122)	(38)	(90)	(334)
Net Position – Beginning	2,104	2,400	8,397	8,972	10,501	11,372
Prior Period Adjustment	<u>(275)</u>	<u>-</u>	<u>(240)</u>	<u>(537)</u>	<u>(515)</u>	<u>(537)</u>
Net Position – Ending	<u>\$ 1,861</u>	<u>\$ 2,104</u>	<u>\$ 8,035</u>	<u>\$ 8,397</u>	<u>\$ 9,896</u>	<u>\$ 10,501</u>

An additional portion of the City's net position (3%) represents resources that are subject to external restrictions on how they may be used. The City has a positive unrestricted net position of (40%).

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position.

The City's net position decreased by \$604,555 during the current fiscal year due to expenses exceeding revenues and prior period adjustment (as more fully described in Note 14 of the financial statements).

CITY OF BONHAM, TEXAS
Management's Discussion and Analysis
September 30, 2013

FUND FINANCIAL ANALYSIS

Governmental Funds provide information on short-term inflows and outflows and balances of spendable resources which is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year the City's governmental funds reported a combined ending fund balance of \$2,477,894, an increase of \$306,569 as compared to the prior year. Approximately 31% (\$760,390) constitutes unassigned fund balance, which is available for spending at the City's discretion. Approximately 69% (\$1,713,380) constitutes assigned fund balance, which can only be spent on specified purposes. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for debt service.

The general fund is the City's chief operating fund. One hundred percent (\$760,390) is unassigned and available for spending at the City's discretion. The unassigned fund balance represents 13% of the general fund expenditures for the current fiscal year. The fund balance of the City's general fund increased \$113,782 during the current fiscal year, which is attributable to revenues exceeding expenditures.

The City's Proprietary Funds consist of its Water and Sewer Fund and its Emergency Medical Services Fund. It provides the same type information found in the government-wide financial statements, but in more detail. The net position decreased by \$361,543 for the current fiscal year. This decrease is primarily due to expenses exceeding revenues and a prior period adjustment of (\$239,788), as more fully described in Note 14 of the financial statements.

CAPITAL ASSETS

Capital Assets for the City's governmental and business-type activities amounted to \$40,727,210, net of accumulated depreciation of \$18,507,658. This investment in capital assets includes land, construction in progress, buildings and improvements, furniture, equipment and vehicles, and water and sewer system. The City's investment in capital assets, net of asset sales and retirements, reflected an increase of 1.7% (3% increase for governmental activities and a 1.2% increase for business-type activities).

Major capital asset additions during the current year included the following:

Governmental Activities:

1. \$27,341 for Street Department Equipment Repair
2. \$25,481 for Purchase of Police Department Vehicle
3. \$14,515 for Police Equipment
4. \$20,246 for Purchase of Parks and Recreation Vehicle
5. \$8,936 for Purchase of Video Equipment
6. \$215,979 for Various Projects Construction in Progress

Business-Type Activities:

1. \$82,609 for Water and Sewer System Improvements Construction in Progress
2. \$112,122 for Water and Sewer System Improvements
3. \$54,300 for Purchase of Water and Sewer Equipment
4. \$100,532 for Purchase and Repairs of Emergency Medical Services Vehicles

A summary of capital asset activity is shown in Note 5 of the financial statements.

Long-term debt is detailed in Note 6 of the financial statements. At the end of the current fiscal year, the City had outstanding long-term debt of \$17,925,391. Of this amount, \$6,448,544 is general obligation debt backed by the full faith and credit of the City government, and \$11,476,847 are revenue bonds, which are secured by specified revenue sources.

CITY OF BONHAM, TEXAS
Management's Discussion and Analysis
September 30, 2013

The City's total long-term debt decreased by \$109,354 (-.61%). New debt was issued in the form of combination tax and revenue certificates of obligation of \$850,000. Debt retirement amounted to \$985,000 of bond and certificates of obligation payments and \$18,124 of notes payable.

The City's liability for Compensated Absences increased by \$4,929 for the Governmental Activities and increased by \$11,895 for the Business-Type activities.

BUDGET ANALYSIS

The City Council adopts an annual budget for the General Fund and it is presented as Required Supplementary Information in this report. Significant variances between the budget and actual results are as follows:

1. Intergovernmental revenues exceeded the budgeted amount by \$383,337 due to grant revenues not originally budgeted.
2. Total expenditures were less than the budgeted amount by \$171,392. The departmental expenses were less than the budget by \$437,197, capital outlay expenses were more than the budget by \$21,122, and grant expenditures exceeded the budget by \$244,682.
3. The net change in the general fund balance was an increase of \$113,782 as compared to a budgeted increase of \$0 generating a favorable variance of \$113,782.

ECONOMIC FACTORS AFFECTING NEXT YEAR'S BUDGET

The City had no unusual economic factors to consider in the preparation of the budget for the fiscal year ending September 30, 2014.

CITY OF BONHAM, TEXAS
Statement of Net Position
September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Bonham Economic Development Corporation
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 488,950	\$ 1,364,559	\$ 1,853,509	\$ 229,828
Investments	1,781,665	1,202,715	2,984,380	306,252
Receivables (Net of Allowance for Uncollectibles)				
Accounts	556,603	1,042,752	1,599,355	118,181
Inventory	-	155,834	155,834	-
Internal Balances	125,000	(125,000)	-	-
Due from Other Governments	20,022	-	20,022	-
Capital Assets, Net of Accumulated Depreciation				
Land	179,531	51,367	230,898	323,808
Construction in Progress	215,979	1,398,713	1,614,692	-
Infrastructure	1,180,745	-	1,180,745	-
Land Improvements	-	-	-	256,129
Buildings and Improvements	3,437,005	669,031	4,106,036	562,311
Furniture, Equipment and Vehicles	671,711	419,205	1,090,916	27,000
Water and Sewer System	-	13,996,265	13,996,265	-
Total Assets	8,657,211	20,175,441	28,832,652	1,823,509
<u>LIABILITIES</u>				
Accounts Payable and Accrued Liabilities	318,322	231,619	549,941	16,101
Contracts Payable	-	57,183	57,183	-
Customers' Meter Deposits	-	346,028	346,028	-
Accrued Interest Payable	29,030	28,263	57,293	-
Noncurrent Liabilities:				
Due Within One Year	332,082	851,047	1,183,129	160,000
Due in More Than One Year	6,116,462	10,625,800	16,742,262	1,450,000
Total Liabilities	6,795,896	12,139,940	18,935,836	1,626,101
<u>NET POSITION</u>				
Net Investment in Capital Assets	36,275	5,657,578	5,693,853	(452,425)
Restricted for:				
Debt Service	4,124	265,291	269,415	92
Unrestricted	1,820,916	2,112,632	3,933,548	649,741
Total Net Position	\$ 1,861,315	\$ 8,035,501	\$ 9,896,816	\$ 197,408

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

CITY OF BONHAM, TEXAS
 Statement of Activities
 Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Bonham Economic Development Corporation
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Administration	\$ 2,452,814	\$ 1,459,231	\$ 203,437	\$ 160,341	\$ (629,805)	\$ -	\$ (629,805)	\$ -
Police	1,970,672	252,396	-	16,185	(1,702,091)	-	(1,702,091)	-
Fire	925,469	-	-	-	(925,469)	-	(925,469)	-
Equipment Services	49,409	-	-	-	(49,409)	-	(49,409)	-
Street	859,897	-	-	3,374	(856,523)	-	(856,523)	-
Sanitation	579,962	885,314	-	-	305,352	-	305,352	-
Library	233,381	-	-	-	(233,381)	-	(233,381)	-
Airport	109,177	103,081	-	-	(6,096)	-	(6,096)	-
Park and Recreation	277,304	-	-	-	(277,304)	-	(277,304)	-
Tourism	39,331	-	-	-	(39,331)	-	(39,331)	-
Lake Bonham	107,765	58,097	-	-	(49,668)	-	(49,668)	-
Interest on Long-Term Debt	246,050	-	-	-	(246,050)	-	(246,050)	-
Total Governmental Activities	7,851,231	2,758,119	203,437	179,900	(4,709,775)	-	(4,709,775)	-
Business-Type Activities:								
Emergency Medical Services	2,202,038	2,355,586	-	35,000	-	188,548	188,548	-
Water and Sewer	4,070,066	4,537,432	-	-	-	467,366	467,366	-
Total Business Activities	6,272,104	6,893,018	-	35,000	-	655,914	655,914	-
Total Primary Government	\$ 14,123,335	\$ 9,651,137	\$ 203,437	\$ 214,900	(4,709,775)	655,914	(4,053,861)	-
Component Unit:								
Bonham Economic Development Corporation	\$ 463,105	\$ -	\$ -	\$ -				(463,105)
General Revenues:								
Property Taxes					1,949,458	-	1,949,458	-
Sales Taxes					1,022,974	-	1,022,974	511,487
Franchise Taxes					480,498	-	480,498	-
Other Taxes					67,163	-	67,163	-
Miscellaneous Revenue					404,343	34,200	438,543	-
Interest on Investments					2,395	2,859	5,254	643
Transfers					814,728	(814,728)	-	-
Total General Revenues					4,741,559	(777,669)	3,963,890	512,130
Change in Net Position					31,784	(121,755)	(89,971)	49,025
Net Position - Beginning					2,104,327	8,397,044	10,501,371	148,383
Prior Period Adjustment					(274,796)	(239,788)	(514,584)	-
Net Position - Ending					\$ 1,861,315	\$ 8,035,501	\$ 9,896,816	\$ 197,408

The accompanying notes to the financial statements are an integral part of this statement

CITY OF BONHAM, TEXAS
Balance Sheet
Governmental Funds
September 30, 2013

	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ (198,776)	\$ -	\$ 603,019	\$ 404,243
Investments	686,117	4,124	1,091,424	1,781,665
Receivables (Net of Allowance for Uncollectibles)	503,873	28,655	24,075	556,603
Due From Other Funds	125,000	-	-	125,000
Due From Other Governments	20,022	-	-	20,022
Total Assets	\$ 1,136,236	\$ 32,779	\$ 1,718,518	\$ 2,887,533
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 247,044	\$ -	\$ 5,138	\$ 252,182
Total Liabilities	247,044	-	5,138	252,182
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	128,802	28,655	-	157,457
Total Deferred Inflows of Resources	128,802	28,655	-	157,457
FUND BALANCES				
Restricted Fund Balance:				
Retirement of Long-Term Debt	-	4,124	-	4,124
Assigned Fund Balance:				
Drug Investigation	-	-	10,756	10,756
Lake Bonham Land	-	-	502,170	502,170
Airport	-	-	67,169	67,169
Tourism	-	-	41,861	41,861
Capital Projects	-	-	1,091,424	1,091,424
Unassigned Fund Balance	760,390	-	-	760,390
Total Fund Balances	760,390	4,124	1,713,380	2,477,894
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,136,236	\$ 32,779	\$ 1,718,518	\$ 2,887,533
Fund Balances - Total Governmental Funds (above)				\$ 2,477,894
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in government activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$10,771,531 and the accumulated depreciation is \$5,086,560.				5,684,971
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.				157,457
Internal service funds are used to charge the cost of self insurance to particular functions. The assets and liabilities of the internal fund are included in the governmental activity statement of net position.				18,567
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:				
Compensated Absences				(173,206)
Accrued Interest Payable				(29,030)
Notes Payable				(168,840)
Tax Notes and Bonds Payable				(2,894,918)
Certificates of Obligation				(3,230,000)
Issuance Discounts on Long-Term Debt				18,420
Net Position of Governmental Activities				\$ 1,861,315

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

CITY OF BONHAM, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2013

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,128,024	\$ 341,933	\$ 41,785	\$ 3,511,742
Licenses and Permits	6,795	-	-	6,795
Intergovernmental Revenues	383,337	-	-	383,337
Charges for Services	926,317	-	103,081	1,029,398
Land Lease Rental	-	-	58,097	58,097
Fines	252,396	-	-	252,396
Interest	1,168	79	1,070	2,317
Miscellaneous Revenue	391,582	-	5,966	397,548
Total Revenues	<u>5,089,619</u>	<u>342,012</u>	<u>209,999</u>	<u>5,641,630</u>
Expenditures:				
Current				
Administration	804,388	-	-	804,388
Police Department	1,896,560	-	5,116	1,901,676
Fire Department	834,818	-	-	834,818
Equipment Services	52,292	-	-	52,292
Street Department	827,929	-	-	827,929
Sanitation	578,741	-	-	578,741
Library	215,958	-	-	215,958
Airport	-	-	70,024	70,024
Parks and Recreation	238,388	-	-	238,388
Tourism	-	-	39,331	39,331
Lake Bonham	73,085	-	35,900	108,985
Grants	244,682	-	-	244,682
Capital Outlay	95,894	-	223,798	319,692
Debt Service				
Principal Retirement	18,125	207,731	-	225,856
Interest and Fiscal Charges	9,145	232,893	3,800	245,838
Bond Issuance Costs	-	-	36,191	36,191
Total Expenditures	<u>5,890,005</u>	<u>440,624</u>	<u>414,160</u>	<u>6,744,789</u>
Excess of Revenues Over (Under) Expenditures	<u>(800,386)</u>	<u>(98,612)</u>	<u>(204,161)</u>	<u>(1,103,159)</u>
Other Financing Sources (Uses)				
Proceeds from Issuance of Long-Term Debt	-	-	595,000	595,000
Operating Transfers In	914,168	20,758	-	934,926
Operating Transfers Out	-	-	(120,198)	(120,198)
Total Other Financing Sources (Uses)	<u>914,168</u>	<u>20,758</u>	<u>474,802</u>	<u>1,409,728</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	113,782	(77,854)	270,641	306,569
Fund Balances - October 1	<u>646,608</u>	<u>81,978</u>	<u>1,442,739</u>	<u>2,171,325</u>
Fund Balances - September 30	<u>\$ 760,390</u>	<u>\$ 4,124</u>	<u>\$ 1,713,380</u>	<u>\$ 2,477,894</u>

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

CITY OF BONHAM, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2013

Net Change in Fund Balances - Total Governmental Funds	\$	306,569
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>		312,498
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.</p>		(332,571)
<p>The issuance of long-term debt 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 assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the 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.</p>		
Proceeds	\$ (595,000)	
Retirements	225,855	
Amortization of Deferred Charges	(1,346)	
		(370,491)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>		(4,929)
<p>Some taxes will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues in the governmental funds.</p>		8,351
<p>The net revenue from internal service funds is reported with governmental activities.</p>		111,223
<p>Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.</p>		1,134
		1,134
Change in Net Position - Governmental Activities	\$	31,784

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

CITY OF BONHAM, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service Fund
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 546,102	\$ 561,378	\$ 1,107,480	\$ 84,707
Investments	-	591,897	591,897	-
Accounts Receivable	426,164	616,588	1,042,752	-
Inventory	-	155,834	155,834	-
Restricted Assets				
Cash and Cash Equivalents	-	257,079	257,079	-
Investments	-	610,818	610,818	-
Total Current Assets	<u>972,266</u>	<u>2,793,594</u>	<u>3,765,860</u>	<u>84,707</u>
Noncurrent Assets				
Land	-	51,367	51,367	-
Construction in Progress	-	1,398,713	1,398,713	-
Furniture, Equipment and Vehicles	932,009	1,386,405	2,318,414	-
Buildings and Improvements	-	772,036	772,036	-
Water and Sewer System	-	25,415,149	25,415,149	-
Less Accumulated Depreciation	(771,787)	(12,649,311)	(13,421,098)	-
Total Noncurrent Assets	<u>160,222</u>	<u>16,374,359</u>	<u>16,534,581</u>	<u>-</u>
Total Assets	<u>1,132,488</u>	<u>19,167,953</u>	<u>20,300,441</u>	<u>84,707</u>
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	40,407	191,212	231,619	66,140
Current Portion of Compensated Absences	36,883	15,183	52,066	-
Customers' Meter Deposits	-	346,028	346,028	-
Due to Other Funds	125,000	-	125,000	-
Payables from Restricted Assets				
Current Portion of Certificates of Obligation	-	330,000	330,000	-
Current Portion of Bonds Payable	-	468,981	468,981	-
Contracts Payable	-	57,183	57,183	-
Accrued Interest Payable	-	28,263	28,263	-
Total Current Liabilities	<u>202,290</u>	<u>1,436,850</u>	<u>1,639,140</u>	<u>66,140</u>
Noncurrent Liabilities				
Compensated Absences	41,758	17,122	58,880	-
Certificates of Obligation - Long-Term Portion	-	6,290,000	6,290,000	-
Bonds Payable - Long-Term Portion	-	4,558,102	4,558,102	-
Bond Discounts	-	(281,182)	(281,182)	-
Total Long-Term Liabilities	<u>41,758</u>	<u>10,584,042</u>	<u>10,625,800</u>	<u>-</u>
Total Liabilities	<u>244,048</u>	<u>12,020,892</u>	<u>12,264,940</u>	<u>66,140</u>
NET POSITION				
Net Investment in Capital Assets	160,222	5,497,356	5,657,578	-
Restricted for:				
Debt Service	-	265,291	265,291	-
Unrestricted	728,218	1,384,414	2,112,632	18,567
Total Net Position	<u>\$ 888,440</u>	<u>\$ 7,147,061</u>	<u>\$ 8,035,501</u>	<u>\$ 18,567</u>

The accompanying notes to the financial statements are
an integral part of this statement

CITY OF BONHAM, TEXAS
Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service Fund
Operating Revenues				
Charges for Services	\$ 2,355,586	\$ 4,537,432	\$ 6,893,018	\$ -
Other	-	34,200	34,200	-
Employee Contributions	-	-	-	413,691
Employer Contributions	-	-	-	1,004,537
Total Revenues	<u>2,355,586</u>	<u>4,571,632</u>	<u>6,927,218</u>	<u>1,418,228</u>
Operating Expenses				
Water and Wastewater Administration	-	501,942	501,942	-
Water Purchase and Delivery	-	1,180,944	1,180,944	-
Water Distribution	-	845,374	845,374	-
Wastewater Collection	-	138,886	138,886	-
Wastewater Treatment	-	464,106	464,106	-
Depreciation	93,480	683,058	776,538	-
Employee Insurance Expense	-	-	-	1,307,083
Salaries	1,705,414	-	1,705,414	-
Supplies	163,176	-	163,176	-
Services	239,968	-	239,968	-
Total Operating Expenses	<u>2,202,038</u>	<u>3,814,310</u>	<u>6,016,348</u>	<u>1,307,083</u>
Operating Income (Loss)	<u>153,548</u>	<u>757,322</u>	<u>910,870</u>	<u>111,145</u>
Nonoperating Revenues (Expenses)				
Intergovernmental	35,000	-	35,000	-
Interest Income	595	2,264	2,859	78
Interest Expense	-	(255,756)	(255,756)	-
Transfer In (Out)	(150,435)	(664,293)	(814,728)	-
Total Nonoperating Revenues (Expenses)	<u>(114,840)</u>	<u>(917,785)</u>	<u>(1,032,625)</u>	<u>78</u>
Change in Net Position	38,708	(160,463)	(121,755)	111,223
Net Position - Beginning of Year	849,732	7,547,312	8,397,044	(92,656)
Prior Period Adjustment	-	(239,788)	(239,788)	-
Net Position - End of Year	<u>\$ 888,440</u>	<u>\$ 7,147,061</u>	<u>\$ 8,035,501</u>	<u>\$ 18,567</u>

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

CITY OF BONHAM, TEXAS
Statement of Cash Flows - Proprietary Funds
Year Ended September 30, 2013

	Business-Type Activities - Enterprise Fund			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 2,366,826	\$ 4,427,577	\$6,794,403	\$ -
Cash Payments to Suppliers for Goods and Services	(424,736)	(2,231,507)	(2,656,243)	-
Cash Payments to Employees for Services	(1,694,024)	(882,198)	(2,576,222)	-
Other Operating Revenues	-	34,200	34,200	-
Employer and Employee Contributions	-	-	-	1,418,228
Employee Insurance Claims Paid	-	-	-	(1,366,271)
Net Cash from Operating Activities	<u>248,066</u>	<u>1,348,072</u>	<u>1,596,138</u>	<u>51,957</u>
Cash Flows from Noncapital Financing Activities				
Subsidy from Federal Grant	35,000	-	35,000	-
Transfers to Other Funds	(150,435)	(664,293)	(814,728)	-
Net Cash from Noncapital Financing Activities	<u>(115,435)</u>	<u>(664,293)</u>	<u>(779,728)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets and Construction in Progress	(100,532)	(518,359)	(618,891)	-
Proceeds Received from Long-Term Debt	-	255,000	255,000	-
Principal Paid on Long-Term Debt	-	(777,269)	(777,269)	-
Interest Paid on Long-Term Debt	-	(232,441)	(232,441)	-
Net Cash from Capital and Related Financing Activities	<u>(100,532)</u>	<u>(1,273,069)</u>	<u>(1,373,601)</u>	<u>-</u>
Cash Flows from Investing Activities				
Net Change in Investments	-	344,442	344,442	-
Interest Received	595	2,264	2,859	78
Net Cash from Investing Activities	<u>595</u>	<u>346,706</u>	<u>347,301</u>	<u>78</u>
Net Increase (Decrease) in Cash	32,694	(242,584)	(209,890)	52,035
Cash and Cash Equivalents, October 1	<u>513,408</u>	<u>1,061,041</u>	<u>1,574,449</u>	<u>32,672</u>
Cash and Cash Equivalents, September 30	<u>\$ 546,102</u>	<u>\$ 818,457</u>	<u>\$1,364,559</u>	<u>\$ 84,707</u>

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

CITY OF BONHAM, TEXAS
Statement of Cash Flows - Proprietary Funds
Year Ended September 30, 2013

	Business-Type Activities - Enterprise Fund			Governmental Activities
	Emergency Medical Services	Water and Sewer	Totals	Internal Service
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities				
Operating Income (Loss)	\$ 153,548	\$ 757,322	\$ 910,870	\$ 111,145
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities				
Depreciation	93,480	683,058	776,538	-
Change in Assets and Liabilities				
Decrease (Increase) in Accounts Receivable	11,240	(130,255)	(119,015)	-
Decrease (Increase) in Inventory	-	(18,430)	(18,430)	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	(10,202)	35,977	25,775	(59,188)
Increase (Decrease) in Customer Meter Deposits	-	20,400	20,400	-
Total Adjustments	94,518	590,750	685,268	(59,188)
Net Cash From Operating Activities	\$ 248,066	\$ 1,348,072	\$1,596,138	\$ 51,957

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

CITY OF BONHAM, TEXAS
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

<u>ASSETS</u>	<u>Volunteer Firemen Incentive Program</u>	<u>Agency Fund</u>
Cash and Cash Equivalents	\$ -	\$ 24,853
Investments	<u>123,746</u>	<u>-</u>
Total Assets	<u>123,746</u>	<u>24,853</u>
 <u>LIABILITIES</u> 		
Accounts Payable and Accrued Expense	<u>20</u>	<u>24,853</u>
Total Liabilities	<u>20</u>	<u>24,853</u>
 <u>NET POSITION</u> 		
Held in Trust for Pension Benefits	<u><u>\$ 123,726</u></u>	<u><u>\$ -</u></u>

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

CITY OF BONHAM, TEXAS
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2013

	Volunteer Firemen Incentive Program
Additions	
Interest on Investments	\$ 738
Total Additions	738
Deductions	
Total Deductions	-
Change in Net Positon	738
Net Position - Beginning	122,988
Net Position - Ending	\$ 123,726

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

CITY OF BONHAM, TEXAS
Notes to Financial Statements
September 30, 2013

Note 1: Summary of Significant Accounting Policies

The City of Bonham, Texas (the City) was incorporated in the middle 1880's. The City operates under a council-manager form of government. The City's major operations include public safety, public works, parks and recreation, and general government services. Additionally, the City operates a water and sewer system.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below:

A. The Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, a component unit is included in the accompanying financial statements.

Bonham Economic Development Corporation, Inc. is a discretely presented component unit of the City due to the ability of the City to exercise oversight responsibility. Bonham Economic Development Corporation, Inc. issues separately audited component unit financial statements. Copies of the component unit financial statements may be obtained from City Secretary of the City of Bonham, Texas, 514 Chestnut Street, Bonham, Texas.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated. The following interfund activities have been eliminated:

- Due from/to other funds
- Transfers in/out

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid in financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements and fund statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (continued)
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The non-major governmental funds consist of the following:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The City accounts for the proceeds received from the Drug Investigation Activity, Airport, Tourism, and Land Account within the Special Revenue Fund category. The assets received from the Drug Investigation Activity Fund are restricted for drug related expenditures.

Capital Projects Fund - The Capital Projects Fund is used to account for acquisition or construction of general fixed assets.

The City reports the following major proprietary funds:

Water Sewer Fund -The Water and Sewer Fund is used to account for the provision of water and sewer services to the City's residents.

Emergency Medical Service Fund - The Emergency Medical Service Fund is used to account for services provided to residents of Fannin County.

Internal Service Fund - Internal Service Funds are used to account for financing of goods and services, provided by one department to other departments of the City. The City operates one Internal Service which provides a partially self-funded group comprehensive health care program for all employees.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

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

Fiduciary Funds - Fiduciary Funds are used to report assets held in a trustee or agency capacity. The City serves as trustee for the Volunteer Firemen's Incentive Fund, a pension trust fund. The City transfers money to an agency fund to provide for employees salaries and related expenses.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary fund. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance on these assets are recorded as expenses. Renewals and betterments are capitalized. Infrastructure assets acquired since October 1, 2003 are recorded at cost.

Assets capitalized have an original cost of \$5,000 and useful life in excess of one year. Depreciation on capital assets has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Furniture, Equipment and Vehicles	5-20 Years
Water and Sewer System	30-40 Years
Infrastructure	40 Years

E. Cash

For purposes of the statement of cash flows, cash includes all cash on hand, demand deposits, and time deposits and other highly liquid investments with a maturity of three months or less when purchased.

F. Taxes Receivable

Allowances for uncollectible taxes are based on historical experience in collecting property taxes. At September 30, 2013, net taxes not estimated to be collectible within sixty days are reflected in deferred revenue.

G. Inventories

Inventories are stated at cost using the first-in, first-out method. Inventory in the governmental fund is recorded as an expense at the time individual inventory items are purchased. Inventory in the proprietary fund is recorded as an expense at the time individual inventory items are consumed.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

H. Long-Term Debt

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists primarily of bonds, certificates of obligation and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

I. Net Position/Fund Balance

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the city or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Beginning with fiscal year 2012, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 1: Summary of Significant Accounting Policies (continued)

I. Net Position/Fund Balance (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

J. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

K. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

L. Compensated Absences Payable

It is the City's policy to permit employees to accumulate 240 hours (300 hours for fire department personnel) of annual vacation, which is paid to employees upon separation from service.

Note 2: Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 2: Stewardship, Compliance and Accountability (continued)

For the year ended September 30, 2013, the City's expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Police Department	\$ 48,383
Sanitation	148,741
Lake Bonham	3,091
Grants	244,682
Capital Outlay	21,122

For the year ended September 30, 2013, Bonham Economic Development Corporation's expenditures exceeded appropriations at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Supplies and Materials	\$ 34,368
Services and Other Charges	18,870
Bad Debt Expense	38,426

Note 3: Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2013, the City was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the City. The City's carrying amount of deposits was \$1,877,251 and the bank's balances were \$1,939,959.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 3: Deposits and Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>
Texas Local Government Investment Pool (Texpool)	\$3,108,126

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of September 30, 2013, Texpool's investments credit quality rating was AAAM (Standard & Poor's).

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. As of September 30, 2013, the City's bank balance was not exposed to custodial credit risk.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Discretely Presented Component Unit – Bonham Economic Development Corporation

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Corporation's deposits may not be returned or the Corporation will not be able to recover collateral securities in the possession of an outside party. The Corporation's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2013, the Corporation was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the Corporation. The Corporation's carrying amount of deposits was \$229,828 and the bank's balances were \$229,828.

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

<u>Investment Type</u>	<u>Fair Value</u>
Texas Local Government Investment Pool (Texpool)	\$ 306,252

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of September 30, 2013, Texpool's investments credit quality rating was AAAM (Standard & Poor's).

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. As of September 30, 2013, the Corporation's bank balance was not exposed to custodial credit risk.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 4: Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2012 levy amounted to .5509 for maintenance and operation and .1191 for the interest and sinking fund. The 2012 net taxable assessed valuation was \$289,244,249.

Note 5: Capital Assets

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

	<u>Balance</u> <u>9/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/13</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 179,531	\$ -	\$ -	\$ 179,531
Construction in Progress	<u>-</u>	<u>215,979</u>	<u>-</u>	<u>215,979</u>
Total Assets not being Depreciated	<u>179,531</u>	<u>215,979</u>	<u>-</u>	<u>395,510</u>
Capital Assets being Depreciated:				
Infrastructure	1,403,784	-	-	1,403,784
Buildings and Improvements	5,708,987	-	-	5,708,987
Furniture, Equipment and Vehicles	<u>3,166,731</u>	<u>96,519</u>	<u>-</u>	<u>3,263,250</u>
	<u>10,279,502</u>	<u>96,519</u>	<u>-</u>	<u>10,376,021</u>
Less Accumulated Depreciation for:				
Infrastructure	187,944	35,095	-	223,039
Buildings and Improvements	2,131,919	140,062	-	2,271,981
Furniture, Equipment and Vehicles	<u>2,434,126</u>	<u>157,414</u>	<u>-</u>	<u>2,591,540</u>
	<u>4,753,989</u>	<u>332,571</u>	<u>-</u>	<u>5,086,560</u>
Capital Assets being Depreciated, Net	<u>5,525,513</u>	<u>(236,052)</u>	<u>-</u>	<u>5,289,461</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,705,044</u>	<u>\$(20,073)</u>	<u>\$ -</u>	<u>\$5,684,971</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 5: Capital Assets (continued)

	<u>Balance</u> <u>9/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/13</u>
Business-Type Activities				
Capital Assets, not being Depreciated:				
Land	\$ 51,367	\$ -	\$ -	\$ 51,367
Construction in Progress	<u>3,377,585</u>	<u>82,609</u>	<u>(2,061,481)</u>	<u>1,398,713</u>
Total Capital Assets, not Being Depreciated	<u>3,428,952</u>	<u>82,609</u>	<u>(2,061,481)</u>	<u>1,450,080</u>
Capital Assets being Depreciated:				
Furniture, Equipment and Vehicles	2,163,581	154,833	-	2,318,414
Buildings and Improvements	772,036	-	-	772,036
Water and Sewer System	<u>23,241,546</u>	<u>2,173,603</u>	<u>-</u>	<u>25,415,149</u>
	<u>26,177,163</u>	<u>2,328,436</u>	<u>-</u>	<u>28,505,599</u>
Less Accumulated Depreciation for:				
Furniture, Equipment and Vehicles	1,734,820	164,389	-	1,899,209
Buildings and Improvements	83,534	19,471	-	103,005
Water and Sewer System	<u>10,826,206</u>	<u>592,678</u>	<u>-</u>	<u>11,418,884</u>
	<u>12,644,560</u>	<u>776,538</u>	<u>-</u>	<u>13,421,098</u>
Capital Assets being Depreciated, Net	<u>13,532,603</u>	<u>1,551,898</u>	<u>-</u>	<u>15,084,501</u>
Business-Type Activities Capital Assets, Net	<u>\$ 16,961,555</u>	<u>\$1,634,507</u>	<u>\$(2,061,481)</u>	<u>\$ 16,534,581</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 5: Capital Assets (continued)

Discretely Presented Component Unit

Capital asset activity for Bonham Economic Development Corporation for the year ended September 30, 2013, follows:

	<u>Balance</u> <u>9/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/13</u>
Capital Assets, not being Depreciated:				
Land	\$ 323,808	\$ -	\$ -	\$ 323,808
Capital Assets being Depreciated:				
Land Improvements	298,738	-	-	298,738
Buildings	733,578	-	-	733,578
Equipment	<u>62,127</u>	<u>30,000</u>	<u>-</u>	<u>92,127</u>
	<u>1,094,443</u>	<u>30,000</u>	<u>-</u>	<u>1,124,443</u>
Less Accumulated Depreciation for:				
Land Improvements	36,634	5,975	-	42,609
Buildings	152,332	18,935	-	171,267
Equipment	<u>60,488</u>	<u>4,639</u>	<u>-</u>	<u>65,127</u>
Total Accumulated Depreciation	<u>249,454</u>	<u>29,549</u>	<u>-</u>	<u>279,003</u>
Capital Assets being Depreciated, Net	<u>844,989</u>	<u>451</u>	<u>-</u>	<u>845,440</u>
Capital Assets, Net	<u>\$ 1,168,797</u>	<u>\$ 451</u>	<u>\$ -</u>	<u>\$ 1,169,248</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Administration	\$ 54,117
Police	50,822
Fire	77,286
Streets	56,637
Sanitation	1,221
Library	14,730
Airport	39,153
Parks and Recreation	<u>38,605</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 332,571</u>
Business-Type Activities:	
Emergency Medical Services	\$ 93,480
Water and Sewer	<u>683,058</u>
	<u>\$ 776,538</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt

A summary of long-term debt transactions for the year ended September 30, 2013, follows:

	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2013</u>	Due Within <u>One Year</u>
Governmental Activities					
Certificates of					
Obligation	\$ 2,670,000	\$ 595,000	\$ 35,000	\$ 3,230,000	\$ 57,000
Bonds and Tax Notes	3,067,649	-	172,731	2,894,918	178,019
Less Deferred Amounts:					
For Issuance Discounts	<u>(19,766)</u>	<u>-</u>	<u>(1,346)</u>	<u>(18,420)</u>	<u>-</u>
Total Certificates of Obligations and Bonds And Tax Notes Payable	5,717,883	595,000	206,385	6,106,498	235,019
Notes Payable	186,964	-	18,124	168,840	17,388
Compensated Absences	<u>168,277</u>	<u>185,260</u>	<u>180,331</u>	<u>173,206</u>	<u>79,675</u>
Governmental Activity Long-Term Liabilities	<u>\$ 6,073,124</u>	<u>\$ 780,260</u>	<u>\$ 404,840</u>	<u>\$ 6,448,544</u>	<u>\$ 332,082</u>
Business-Type Activities					
Certificates of Obligation	\$ 6,695,000	\$ 255,000	\$ 330,000	\$ 6,620,000	\$ 330,000
Bonds and Tax Notes	5,474,351	-	447,269	5,027,082	468,981
Less Deferred Amounts:					
For Issuance Discounts	<u>(306,782)</u>	<u>-</u>	<u>(25,600)</u>	<u>(281,182)</u>	<u>-</u>
Total Certificates of Obligations and Bonds And Tax Notes Payable	11,862,569	255,000	751,669	11,365,900	798,981
Compensated Absences	<u>99,052</u>	<u>118,362</u>	<u>106,467</u>	<u>110,947</u>	<u>52,066</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 11,961,621</u>	<u>\$ 373,362</u>	<u>\$ 858,136</u>	<u>\$ 11,476,847</u>	<u>\$ 851,047</u>

Long-term debt is comprised of the following:

Governmental Type Activities

\$2,440,000, Series 2010, Combination Tax and Revenue Certificates of Obligation due in annual installments of \$25,000 to \$285,000 through 2030, with interest at 3.0% to 4.125% payable semi-annually. Certificates are subject to redemption on February 15, 2020, at par plus accrued interest.

\$ 2,395,000

\$840,000, Series 2010, General Obligation Refunding Bonds, due in annual installments of \$20,000 to \$240,000 through 2026, with interest at 3.0% to 4.0% payable semi-annually. Bonds are subject to redemption on February 15, 2020 at par plus any accrued interest.

780,000

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt (continued)

Governmental Type Activities (continued)

\$205,000, Series 2007A, Certificates of Obligation due in annual installments of \$5,000 to \$30,000 through 2027, with interest at 4.3% to 15.0%. Certificates are subject to redemption on February 15, 2017 at par plus accrued interest.	175,000
\$311,800, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$17,400 to \$24,200 through 2022, with interest at 4.48%. On February 15, 2014, or any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	192,600
\$335,000, Series 2007, General Obligation Refunding Bonds, due in annual installments of \$10,000 to \$15,000 through 2021, with interest at 3.93%.	85,000
\$95,000, Series 2007B, Certificates of Obligation due in annual installments of \$5,000 to \$10,000 through 2027 with interest from 6.1% to 15.0%. Certificates are subject to redemption on February 15, 2017, or any date thereafter, at par plus accrued interest.	65,000
\$3,045,000, Series 2005, General Obligation Refunding and Improvement Bonds, due in annual installments of \$43,837 to \$240,261 with the final payment due in 2026, with interest at 4.28% payable semi-annually.	1,837,318
\$595,000, Series 2013, Combination Tax and Revenue Certificate of Obligation, due in annual installments of \$12,000 to \$81,000 through 2023, with interest at 1.14%.	595,000
\$250,000, Note Payable to Wiley Hokett, dated April 13, 2006, due in monthly installments that range from \$1,779 to \$2,120 through September 2021. The note bears an interest rate of 5%.	<u>168,840</u>
 Total Governmental Type Activities	 <u>\$ 6,293,758</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt (continued)

Business-Type Activities

\$567,000, Series 2005, General Obligation Refunding Bonds, due in annual installments of \$8,163 to \$44,739 with the final payment due in 2026, with interest at 4.28% payable semi-annually.	\$ 404,682
\$1,675,000, Series 2005A, Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$80,000 to \$85,000 with the final payment due in 2026. There is no interest associated with these certificates.	1,080,000
\$7,355,000, Series 2006, Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$245,000 with the final payment due in 2036. There is no interest associated with these certificates.	5,540,000
\$7,483,200, Series 2004, General Obligation Refunding Bonds, due in annual installments of \$398,400 to \$580,800 with final payment due in 2022, with interest at 4.48% payable semi-annually. On February 15, 2014, or on any date thereafter, Refunding Bonds may be redeemed at par plus any accrued interest.	<u>4,622,400</u>
 Total Business-Type Activities	 <u>\$ 11,647,082</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt (continued)

During the year ending September 30, 2006, the City issued \$7,355,000 of Certificates of Obligation to provide funds for improvements and rehabilitation of the City's Water System, specifically for 1) the construction of an elevated storage tank, 2) to replace and upgrade water distribution lines in the City, 3) to replace water meters in the City, 4) to construct a treated water pump station, 5) removing one existing elevated water storage tank, 6) rehabilitation and printing of one existing elevated storage tank and 7) for paying legal, fiscal, engineering and architectural fees in connection with such projects. The certificates mature through 2036. As of September 30, 2013, the City had only received proceeds of \$7,260,000. There is no interest cost associated with this issue.

The ordinances authorizing the issuance of the Certificates of Obligation and the Refunding Bonds state that the City shall establish and maintain an interest and sinking fund. In addition, the ordinances provide for ad valorem taxes to be levied which will be sufficient to pay the interest as such interest comes due and to provide and maintain a sinking fund adequate to pay the principal as such principal matures.

The Certificates of Obligation and Refunding Bonds are additionally secured by the revenues of the City's waterworks and sewer systems, after payment of all maintenance, operational expenses, and debt service of said system.

In prior years, the City defeased certain certificates of obligation and general obligation refunding bonds. The City deposited proceeds of the new refunding bonds in an irrevocable escrow account with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not actually be retired until the call dates have come due or until maturity. On September 30, 2013, \$4,765,000 of bonds outstanding are considered defeased.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt (continued)

The annual requirements to amortize the bonds, certificates of obligation, and notes outstanding as of September 30, 2013, are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2014	\$ 252,407	\$ 240,019	\$ 798,981	\$ 213,931	\$ 1,505,338
2015	267,953	226,877	814,323	192,642	1,501,795
2016	286,963	254,162	835,250	170,544	1,546,919
2017	356,746	285,523	854,450	147,548	1,644,267
2018	369,268	272,365	880,961	123,531	1,646,125
2019	390,627	247,464	906,688	98,349	1,643,128
2020	418,414	220,667	933,043	72,003	1,644,127
2021	594,701	189,156	953,956	44,603	1,782,416
2022	577,570	153,978	950,539	16,702	1,698,789
2023	527,540	120,116	363,460	1,911	1,013,027
2024	363,837	95,283	333,163	914	793,197
2025	385,523	77,696	333,477	558	797,254
2026	402,209	58,787	333,791	188	794,975
2027	290,000	41,026	245,000	-	576,026
2028	255,000	27,926	245,000	-	527,926
2029	270,000	17,291	245,000	-	532,291
2030	285,000	5,878	245,000	-	535,878
2031	-	-	245,000	-	245,000
2032	-	-	245,000	-	245,000
2033	-	-	245,000	-	245,000
2034	-	-	245,000	-	245,000
2035	-	-	245,000	-	245,000
2036	-	-	150,000	-	150,000
	<u>\$ 6,293,758</u>	<u>\$ 2,534,214</u>	<u>\$ 11,647,082</u>	<u>\$ 1,083,424</u>	<u>\$ 21,558,478</u>

Discretely Presented Component Unit

A summary of the Bonham Economic Development Corporation's long-term debt transactions for the year ended September 30, 2013, follows:

Balance, September 30, 2012	\$ 1,770,000
Additions	-
Retirements	<u>160,000</u>
Balance, September 30, 2013	<u>\$ 1,610,000</u>

The amount of bonds due within one year is \$160,000.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 6: Long-Term Debt (continued)

Discretely Presented Component Unit (continued)

Bonds are comprised of the following:

Revenue Bonds:

\$1,870,000, Series 2011 Sales Tax Revenue Refunding Bonds, due in annual installments of \$160,000 to \$195,000 through 2022, interest at 2.9%.

\$ 1,610,000

Debt service requirements are as follows:

Year Ending September 30,	Sales Tax Revenue Bonds		Total
	Principal	Interest	
2014	\$ 160,000	\$ 46,690	\$ 206,690
2015	165,000	42,050	207,050
2016	170,000	37,265	207,265
2017	175,000	32,335	207,335
2018	180,000	27,260	207,260
2019	185,000	22,040	207,040
2020	190,000	16,675	206,675
2021	195,000	11,165	206,165
2022	190,000	5,510	195,510
	<u>\$ 1,610,000</u>	<u>\$ 240,990</u>	<u>\$ 1,850,990</u>

Sales and Use Taxes (one-half of one percent) levied by the City of Bonham, Texas, within its boundaries under the Development Corporation Act of 1979, are pledged for payment of bonds and interest. The resolution authorizing the issuance of revenue bonds created an interest and sinking fund (Debt Service Fund). The ordinance requires the Corporation to make substantially equal monthly installments payments to the Debt Service Fund which will be sufficient to pay principal and interest as it comes due.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 7: Interfund Transactions and Balances

Interfund transfers for the year ended September 30, 2013, consisted of the following individual amounts:

Transfers to Debt Service Fund From:

Special Revenue Fund	\$ 11,465
Water and Sewer Fund	<u>9,293</u>
Total Transferred to Debt Service Fund	<u>\$ 20,758</u>

Transfers to General Fund From:

Water and Sewer Fund	\$ 655,000
Emergency Medical Services Fund	150,435
Capital Projects Fund	<u>108,733</u>
Total Transferred to General Fund	<u>\$ 914,168</u>

The transfers to the Debt Service Fund were to pay debt related to the airport and Water and Sewer Fund. The transfer from the Water and Sewer Fund to the General Fund was to cover the costs of administrative functions. The transfer from the Emergency Medical Services Fund to the General Fund was to cover the costs of administrative functions and to pay debt related to the North Fire Station to purchase equipment. The transfer from the Internal Service Fund was to cover the costs of administrative functions. The transfer from the Capital Projects Fund was to reimburse for the General Fund for project costs.

Due To/Due From's for the year ended September 30, 2013 consisted of the following:

Due From Emergency Medical Services Fund To:

General Fund	<u>\$ 125,000</u>
Total Due From Emergency Medical Services Fund	<u>\$ 125,000</u>

The amounts payable to the General Fund from the Emergency Medical Services Fund relate to operating activities. None of these balances are scheduled to be collected in the subsequent year.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 8: Disaggregation of Receivables and Payables

Receivables at September 30, 2013, were as follows:

	<u>Property Taxes</u>	<u>Other Taxes</u>	<u>Accounts</u>	<u>Gross Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Governmental						
General Fund	\$ 145,975	\$ 327,139	\$ 74,551	\$ 547,665	\$(43,792)	\$ 503,873
Special Revenue	-	11,884	12,191	24,075	-	24,075
Debt Service	<u>35,819</u>	<u>-</u>	<u>-</u>	<u>35,819</u>	<u>(7,164)</u>	<u>28,655</u>
Total – Governmental Activities	<u>\$ 181,794</u>	<u>\$ 339,023</u>	<u>\$ 86,742</u>	<u>\$ 607,559</u>	<u>\$(50,956)</u>	<u>\$ 556,603</u>
Proprietary						
Emergency Medical Services	\$ -	\$ -	\$ 568,199	\$ 568,199	\$(142,035)	\$ 426,164
Water and Sewer Fund	<u>-</u>	<u>-</u>	<u>628,306</u>	<u>628,306</u>	<u>(11,718)</u>	<u>616,588</u>
Total – Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,196,505</u>	<u>\$ 1,196,505</u>	<u>\$(153,753)</u>	<u>\$ 1,042,752</u>
Amounts Not Expected To be Collected During The Subsequent Year	<u>\$ 129,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,599</u>	<u>\$ -</u>	<u>\$ 129,599</u>

Payables at September 30, 2013, were as follows:

	<u>Accounts</u>	<u>Wages</u>	<u>Totals</u>
Governmental Activities			
General Fund	\$ 200,117	\$ 46,927	\$ 247,044
Special Revenue	5,138	-	5,138
Internal Service	<u>66,140</u>	<u>-</u>	<u>66,140</u>
Total-Governmental Activities	<u>\$ 271,395</u>	<u>\$ 46,927</u>	<u>\$ 318,322</u>
Business-Type Activities			
Emergency Medical Services	\$ 21,620	\$ 18,787	\$ 40,407
Water and Sewer Fund	<u>181,796</u>	<u>9,416</u>	<u>191,212</u>
Total-Business-Type Activities	<u>\$ 203,416</u>	<u>\$ 28,203</u>	<u>\$ 231,619</u>

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 9: Retirement Commitments

Volunteer Firemen's Incentive Fund

The City sponsors and administers the Volunteer Firemen's Incentive Fund which is accounted for as a separate Pension Trust Fund. The Plan provides specified benefits for volunteer firemen who meet the plan's criteria. This amount was not actuarially determined and data concerning the actuarial status of the fund at September 30, 2013, was not available.

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; 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>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee Deposit Rate	6%	6%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age, Years of Service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	0% of CPI	0% of CPI

Contributions

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

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 9: Retirement Commitments (continued)

Pension Plan (continued)

Contributions (continued)

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 net pension obligation/(asset) are as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/11	\$ 319,352	100%	-
9/30/12	262,729	100%	-
9/30/13	225,760	100%	-

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:

<u>Valuation Date</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
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 Amortized Period	21.7 yrs; closed period	21.5 yrs; closed period	21.4 yrs; closed period
Amortization Period for New Gains/Losses	25 years	25 years	25 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	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.0%	0.0%	0.0%

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 9: Retirement Commitments (continued)

Contributions (continued)

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/12	\$11,063,623	\$ 11,050,031	100.1%	\$(13,592)	\$4,427,870	(0.3)%

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 are 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.

Note 10: Group Insurance

The City provides a partially self-funded group comprehensive health care program for all employees and approximately 100 employees are covered. Under the program, the City has contracted with an insurance company to process employee claims and provide reinsurance for annual individual coverage exceeding \$35,000. This plan provides employee health benefits up to a \$1,000,000 lifetime maximum.

Note 11: Commitments/Contingent Liabilities

Grants

The City participates in federally assisted grant programs which are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation

The City is subject to pending lawsuits. Although the outcome of lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Construction Contracts

The City had outstanding at September 30, 2013 contract commitments totaling approximately \$18,038 related to improvements and rehabilitation of the City's water and sewer system.

CITY OF BONHAM, TEXAS
Notes to Financial Statements (Continued)
September 30, 2013

Note 12: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. The City manages these various risks of loss by purchasing commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 13: Major Customer

The City's financial statements include revenues of \$780,215 from one customer.

Note 14: Prior Period Adjustment

A prior period adjustment was necessary in the Governmental Activities for \$274,796 and in the Business-Type Activities for \$239,788 due to a change in accounting for Bond Issuance Costs.

Note 15: Subsequent Events

Management has evaluated subsequent events through February 7, 2014, date on which the financial statements were available to be issued.

CITY OF BONHAM, TEXAS
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 3,285,460	\$ 3,285,460	\$ 3,128,024	\$ (157,436)
Licenses and Permits	3,100	3,100	6,795	3,695
Intergovernmental Revenues	-	-	383,337	383,337
Charges for Services	822,150	822,150	926,317	104,167
Fines	195,300	195,300	252,396	57,096
Interest	1,500	1,500	1,168	(332)
Miscellaneous Revenue	352,514	352,514	391,582	39,068
Total Revenues	<u>4,660,024</u>	<u>4,660,024</u>	<u>5,089,619</u>	<u>429,595</u>
Expenditures:				
Current				
Administration	827,012	827,012	804,388	22,624
Police Department	1,848,177	1,848,177	1,896,560	(48,383)
Fire Department	913,976	913,976	834,818	79,158
Equipment Services	55,485	55,485	52,292	3,193
Street Department	1,331,354	1,331,354	827,929	503,425
Sanitation	430,000	430,000	578,741	(148,741)
Library	225,909	225,909	215,958	9,951
Parks and Recreation	257,449	257,449	238,388	19,061
Lake Bonham	69,994	69,994	73,085	(3,091)
Grants	-	-	244,682	(244,682)
Capital Outlay	74,772	74,772	95,894	(21,122)
Debt Service				
Principal Retirement	1,583	1,583	18,125	(16,542)
Interest and Fiscal Charges	251	251	9,145	(8,894)
Total Expenditures	<u>6,035,962</u>	<u>6,035,962</u>	<u>5,890,005</u>	<u>145,957</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,375,938)</u>	<u>(1,375,938)</u>	<u>(800,386)</u>	<u>575,552</u>
Other Financing Sources (Uses)				
Proceeds from Issuance of Long-Term Debt	576,953	576,953	-	(576,953)
Operating Transfers In	798,985	798,985	914,168	115,183
Total Other Financing Sources (Uses)	<u>1,375,938</u>	<u>1,375,938</u>	<u>914,168</u>	<u>(461,770)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	113,782	113,782
Fund Balance - October 1	<u>646,608</u>	<u>646,608</u>	<u>646,608</u>	<u>-</u>
Fund Balance - September 30	<u>\$ 646,608</u>	<u>\$ 646,608</u>	<u>\$ 760,390</u>	<u>\$ 113,782</u>

CITY OF BONHAM, TEXAS
Texas Municipal Retirement System
Schedule of Funding Progress
September 30, 2013

Texas Municipal Retirement System
Schedule of Funding in Progress:
(unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2010	\$ 9,130,695	\$ 9,465,113	96.5%	\$ 334,418	\$ 4,591,445	7.3 %
12/31/2011	10,140,461	10,336,655	98.1%	196,194	4,435,442	4.4 %
12/31/2012	11,063,623	11,050,031	100.1%	(13,592)	4,427,870	(0.3) %

CITY OF BONHAM, TEXAS
Notes to Required Supplementary Information
September 30, 2013

Budgetary Data

In accordance with state law, the City adopts an annual budget before September 30 for the subsequent year. The budget is prepared on the same basis of accounting as applied to the governmental funds in the basic financial statements.

GAAP require that a budgetary comparison be presented for the general fund. The budgetary comparison must include the original budget and the final amended budget. The City's original adopted budget was not amended; therefore, only one budget column is presented in the budgetary comparison schedule.

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Bonham, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bonham, 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 and have issued our report thereon dated February 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-1 and 2013-2 to be material weaknesses.

Honorable Mayor and Members
of the City Council
City of Bonham, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McClanahan and Helms, LLP
Certified Public Accountants

February 7, 2014
Bonham, Texas

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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**Report on Compliance for each Major Program and on
Internal Control over Compliance Required by OMB Circular A-133**

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Bonham, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Bonham, Texas', compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Honorable Mayor and Members
of the City Council
City of Bonham, Texas

Opinion on Each Major Federal Program

In our opinion, the City of Bonham, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Certified Public Accountants

February 7, 2014
Bonham, Texas

CITY OF BONHAM, TEXAS
Schedule of Findings and Questioned Costs
September 30, 2013

Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements.
2. Two deficiencies were disclosed during the audit of the financial statements. Both deficiencies are reported below and are considered to be significant deficiencies.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No deficiencies in internal control over major programs were disclosed during the audit.
5. The auditors' report on compliance for the major programs expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 and the State of Texas Uniform Grant Management Standards are reported in this Schedule.
7. The program tested as a major federal program was:
Drinking Water State Revolving Funds CFDA Number 66.468
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Bonham, Texas, was determined not to be a low-risk auditee.

Findings – Financial Statements Audit

Significant Deficiencies

Item 2013-1 Limited Segregation of Duties

Condition: Due to the City's small number of personnel, there is a limited segregation of duties in all areas of the accounting system.

Criteria: Limited Segregation of Duties

Cause: This condition is caused by the size of the City.

Effect: As a result of this condition, the City is unable to segregate duties between employees.

Recommendations: We recommend that the City Council maintain close oversight of the operation of the City.

Views of Responsible
Official and Planned
Corrective Actions:

The City's Management agrees with the finding and the recommended procedures have been implemented.

Item 2013-2 Financial Accounting and Reporting

Condition: The City does not prepare the financial statements nor control the period-end financial reporting process including controls over procedures used to analyze transactions compromising general ledger activity; controls over recording recurring and non-recurring adjustments to the financial statements; and, controls over the adequacy of note disclosures to the financial statements.

CITY OF BONHAM, TEXAS
Schedule of Findings and Questioned Costs (continued)
September 30, 2013

Findings – Financial Statements Audit (continued)

Significant Deficiencies (continued)

Criteria: The City’s management should be capable of preparing and or overseeing the preparation of the annual financial statements.

Cause: The City’s management lacks necessary experience and expertise to perform the year end reporting requirements.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP.

Recommendations: The City’s management should maintain close oversight of the accounting and reporting process.

Views of Responsible

Official and Planned

Corrective actions: The City’s management agrees with the finding and plans to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Findings and Questioned Costs - Major Federal and State Award Programs Audit

There were no findings or questioned costs related to major programs.

CITY OF BONHAM, TEXAS
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013

FINDING/RECOMMENDATION

Not Applicable

CITY OF BONHAM, TEXAS
Corrective Action Plan
Year Ended September 30, 2013

City of Bonham, Texas respectfully submits the following corrective action plan for the year ended September 30, 2013.

Name and address of independent public accounting firm:

McClanahan and Holmes, LLP
1400 West Russell
Bonham, TX 75418

Audit Period: Year Ended September 30, 2013

The findings from the September 30, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement Audit

2013-1 Limited Segregation of Duties

Recommendations: The City Council should maintain close oversight of the operations of the City.

Action Taken: Segregation of Duties is not feasible for the City of Bonham due to a limited budget. The City is unable to employ the amount of staff that is needed to have good segregation of duties.

Contact Person: City Manager, Bill Shipp

Anticipated Completion Date: Unknown

2013-2 Financial Accounting and Reporting

Recommendation: The City Council should maintain close oversight of the accounting and reporting process.

Action Taken: The City is currently in the process of hiring a finance director.

Contact Person: City Manger, Bill Shipp

Anticipated Completion Date: Current Fiscal Year

CITY OF BONHAM, TEXAS
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. Department of Housing and Urban Development			
<u>Passed Through State Department of Housing and Urban Development</u>			
Home Investment Partnerships Program	14.239	1001054 & 1001270	<u>\$ 203,437</u>
<u>Passed Through the Texas Department of Agriculture</u>			
Community Development Block Grant	14.228	729061	<u>21,685</u>
Total Community Development Block Grant			<u>21,685</u>
Total U. S. Department of Housing and Urban Development			<u>225,122</u>
Department of Homeland Security			
<u>Direct Program</u>			
Homeland Security Grant Program	97.067	N/A	<u>16,185</u>
Total Federal Emergency Management Agency			<u>16,185</u>
Environmental Protection Agency			
<u>Passed Through Texas Water Development Board</u>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	61.022	<u>464,058</u>
Total Environmental Protection Agency			<u>464,058</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 705,365</u>

CITY OF BONHAM, TEXAS
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Bonham, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.