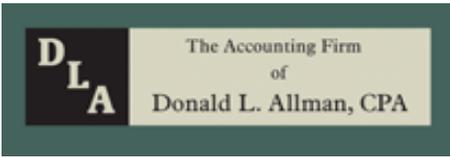


VILLAGE OF SALADO, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014
REVISED AND RESTATED

VILLAGE OF SALADO, TEXAS

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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Honorable Mayor
And Members of the City Council
Village of Salado, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Salado, Texas as of and for the year ended September 30, 2014, 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, each major fund, and the aggregate remaining fund information of the Village of Salado, Texas, as of September 30, 2014, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3–8 and 16-18 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 Village of Salado, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2015, on our consideration of the Village of Salado, 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 Village of Salado, Texas' internal control over financial reporting and compliance.

Donald L Allman, CPA, PC

Georgetown, Texas
April 16, 2015

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

As management of the Village of Salado, Texas ("the Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended September 30, 2014. We encourage readers to consider information presented here in conjunction with additional information that we have furnished in the Village's financial statements, which follow this narrative.

Financial Highlights:

- The assets of the Village of Salado exceeded its liabilities as of September 30, 2014, by \$2,052,237 (Net Assets). Of this amount, \$1,123,235 represents unrestricted net assets. Unrestricted net assets may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$276,097 during the year.

Overview of Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Village of Salado's basic financial statements. The Village's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes additional supplementary information in addition to the basic financial statements.

Government-wide Financial Statements – The Government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported in net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. This statement combines and consolidates governmental funds current financial resources (short-term spendable resources), capital assets, and long-term liabilities of the Village.

The statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis of accounting used in prior reporting models.

Fund Financial Statements – 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. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village uses one fund type – governmental.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources. The governmental fund statements provide a detailed short-term view of the Village's general government operations and help you determine whether resources are available in the near future to finance Village programs. Comparing the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements will help the readers to better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

The Village adopts an annual appropriated budget for its general fund and hotel/motel tax fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

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

Government-wide Financial Analysis:

As noted earlier, net assets may serve over time as a useful indicator of the Village's financial position. As of September 30, 2014, the Village's net assets exceeded liabilities by \$2,052,237.

A portion of the Village's net assets \$1,123,235, reflects its unrestricted net assets which are available for spending at the Village's discretion.

Summary of Net Assets

	Governmental Activities			
	2014	2013	\$ Change	% Change
Current Assets	\$ 1,453,058	\$ 1,275,488	\$ 177,570	13.9%
Capital Assets (Net)	722,098	716,746	5,352	0.7%
Total Assets	\$ 2,175,156	\$ 1,992,234	\$ 182,922	9.2%
Short-Term Liabilities	\$ 44,073	\$ 55,846	\$ (11,773)	-21.1%
Long-Term Liabilities	78,846	160,248	(81,402)	-50.8%
Total Liabilities	\$ 122,919	\$ 216,094	\$ (93,175)	-43.1%
Net Assets:				
Invested in Capital Assets	\$ 722,098	\$ 716,746	\$ 5,352	0.7%
Restricted	206,904	155,963	50,941	32.7%
Unrestricted	1,123,235	903,431	219,804	24.3%
Total Net Assets	\$ 2,052,237	\$ 1,776,140	\$ 276,097	15.5%

Governmental activities increased the Village's net assets by \$276,097 in 2014. The following table provides a comparison of the Village's operations for the year ended September 30, 2014 to the year ended September 30, 2013.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Summary of Changes in Net Assets

	Governmental Activities			
	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Program Revenues:				
Charges for Services	\$ 74,547	\$ 87,843	\$ (13,296)	-15.1%
General Revenues:	\$ -			
Ad Valorem Taxes	226,864	250,641	(23,777)	-9.5%
Sales Taxes	266,490	343,733	(77,243)	-22.5%
Franchise Fees	200,587	250,434	(49,847)	-19.9%
Mixed Beverage Taxes	13,986	7,868	6,118	77.8%
Occupancy Taxes	212,044	223,905	(11,861)	-5.3%
Investment Earnings	3,925	5,367	(1,442)	-26.9%
Federal Grants	-	-	-	0.0%
Other Revenues	36,012	36,764	(752)	
Total Revenues	<u>\$ 1,034,455</u>	<u>\$ 1,206,555</u>	<u>\$ (172,100)</u>	<u>-14.3%</u>
Expenses:				
General Government	\$ 195,693	\$ 283,189	\$ (87,496)	-30.9%
Judicial	27,248	27,346	(98)	-0.4%
Police	196,121	241,238	(45,117)	-18.7%
Fire Protection & EMS	41,476	33,800	7,676	22.7%
Public Works	61,738	223,280	(161,542)	-72.3%
Parks	2,905	5,666	(2,761)	-48.7%
Tourism	233,177	216,461	16,716	7.7%
Total Expenses	<u>\$ 758,358</u>	<u>\$ 1,030,980</u>	<u>\$ (272,622)</u>	<u>-26.4%</u>
Change in Net Assets	<u>\$ 276,097</u>	<u>\$ 175,575</u>	<u>\$ 100,522</u>	<u>57.3%</u>
Net Assets - Beginning	<u>\$ 1,776,140</u>	<u>\$ 1,600,565</u>	<u>\$ 175,575</u>	<u>11.0%</u>
Net Assets - Ending	<u>\$ 2,052,237</u>	<u>\$ 1,776,140</u>	<u>\$ 276,097</u>	<u>15.5%</u>

Financial Analysis of the Government's Funds:

General Fund – The Village utilizes a general fund to account for the basic services provided to citizens by the Village. At September 30, 2014, the Village's general fund reported an ending fund balance of \$1,237,443. Of this balance, \$1,237,443 constitutes undesignated, unreserved fund balance which is available for spending at the Village's discretion.

During the current year, General Fund balance increased by \$173,764.

Hotel/Motel Tax Fund – The Village collects an occupancy tax equal to 7%, less an administrative fee, of adjusted hotel and motel collections for the purpose of promoting tourism. The Village accounts for this using a special revenue fund. At September 30, 2014, the Village's hotel/motel tax fund reported an ending fund balance of \$171,544. The full amount constitutes reserved fund balance which is available solely for the promotion of tourism to Salado.

During the current year, hotel/motel tax fund balance increased by \$15,581.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Capital Assets:

The Village's investment in capital assets for its governmental activities as of September 30, 2014 amounts to \$722,098 (net of accumulated depreciation). The investment in capital assets includes infrastructure, equipment, vehicles, land, and buildings. The following table summarizes the Village's investment in fixed assets.

	<u>Governmental Activities</u>
Land	\$ 45,577
Buildings	251,057
Vehicles and Equipment	131,932
Infrastructure	<u>293,532</u>
Total Capital Assets, Net	<u>\$ 722,098</u>

During the current year, the Village had no major changes to Capital Assets.

Long-Term Liabilities

For the year ended September 30, 2014 activity related to long-term liabilities is as follows:

	<u>Balance at 9/30/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/2014</u>
Compensated Absences Payable	\$ 71,382	\$ 7,464	\$ -	\$ 78,846

Budget Analysis:

The Village prepares its budgets on the modified accrual of accounting, which is a method of accounting prescribed by generally accepted accounting principles (GAAP). During the current year, the Village had one amendment to each budget to allow for unanticipated expenditures.

The following is a budget to actual comparison for the general fund for the year ended September 30, 2014.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014
Budget to Actual Variances
For the Year Ended September 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	\$ 783,949	\$ 783,949	\$ 719,384	\$ (64,565)
Franchise Fees	208,500	208,500	200,587	\$ (7,913)
Fines	44,100	44,100	43,029	(1,071)
Investment Income	3,500	3,500	3,925	425
Grant Revenue	-	-	-	-
Other Revenue	45,300	45,300	67,530	22,230
Total Revenue	<u>\$1,085,349</u>	<u>\$ 1,085,349</u>	<u>\$ 1,034,455</u>	<u>\$ (50,894)</u>
<u>Expenditures</u>				
General Government	\$ 294,868	\$ 294,868	\$ 195,693	\$ 99,175
Judicial	27,500	27,500	27,248	252
Public Safety	358,185	358,185	237,597	120,588
Public Works	271,676	271,676	61,738	209,938
Parks	6,900	6,900	2,905	3,995
Tourism	239,800	239,800	233,177	6,623
Total Expenditures	<u>\$1,198,929</u>	<u>\$ 1,198,929</u>	<u>\$ 758,358</u>	<u>\$ 440,571</u>
Excess (Deficiency) of Revenues Over Expenditures:	\$ (113,580)	\$ (113,580)	\$ 276,097	\$ 389,677
Other Financing Sources (Uses):				
Transfers In	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ (113,580)	\$ (113,580)	\$ 276,097	\$ 389,677
Fund Balances - Beginning of Year	1,776,140	1,776,140	1,776,140	-
Fund Balances - End of Year	<u>\$1,662,560</u>	<u>\$ 1,662,560</u>	<u>\$ 2,052,237</u>	<u>\$ 389,677</u>

Significant budget to actual variances – The budget for the general fund of the Village experienced expenditures under budget by \$440,571. The actual revenues were under expectations by \$50,894, yielding an overall positive budget variance of \$389,677. Significant items contributing to the variance can be briefly summarized as follows:

- Higher than expected other revenues.
- Higher than anticipated tax collections
- Less than budgeted public safety expenditures.
- Less than budgeted public works expenditures.

Economic Factors and Next Year's Budget:

Due to the State acquiring property along Interstate 35, a decrease in businesses in that area is expected; leading to decreased collections from sales tax used for Village operations. Ad valorem tax increased tremendously due to development. Hotel/Motel occupancy tax revenues are expected to remain the same.

There are no major changes expected during the 2014-2015 budget year.

Request for Information:

The financial report is designed to provide our citizens, investors, and creditors with a general overview of the Village's finances. If you have any questions about this report or need any additional information, please contact the Village Administrator Kim Foutz, at P.O. Box 219, Salado, Texas 76571, or call 254-947-5060.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**VILLAGE OF SALADO, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2014**

Primary Government

Governmental Activities

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 139,790
Investments	1,020,584
Receivables	292,684
Total Current Assets	\$ 1,453,058

Non-Current Assets:

Capital Assets:

Land	\$ 45,577
Infrastructure, Net	293,532
Buildings, Net	251,057
Machinery and Equipment, Net	131,932
Total Non-Current Assets	\$ 722,098

Total Assets

\$ 2,175,156

LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 20,364
Intergovernmental Payable	-
Deferred Revenues	17,885
Other Current Liabilities	5,824
Total Current Liabilities	\$ 44,073

Non Current Liabilities:

Accrued liabilities	-
Compensated Absences Payable	78,846
Total Non-Current Liabilities	\$ 78,846

Total Liabilities

\$ 122,919

NET ASSETS

Invested in Capital Assets	\$ 722,098
Restricted for:	
Restricted for Tourism	206,904
Unrestricted Net Assets	1,123,235
Total Net Assets	\$ 2,052,237

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF SALADO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary <u>Government</u> Governmental
Primary Government:				
Governmental Activities:				
General Government	\$ 195,693	\$ 61,299	\$ -	\$ -
Judicial	27,248	43,029	-	-
Police	196,121	-	-	-
Fire Protection	41,476	1,100	-	-
Public Works	61,738	-	-	-
Parks	2,905	3,131	-	-
Tourism	233,177	2,000	-	-
Total Primary Government:	\$ 758,358	\$ 110,559	\$ -	\$ -
 General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				\$ 226,864
Sales Taxes				266,490
Hotel Occupancy Tax				212,044
Franchise Fees				200,587
Mixed Beverage Taxes				13,986
Investment Earnings				3,925
Total General Revenues				<u>\$ 923,896</u>
Change in Net Assets				\$ 276,097
Net Assets - Beginning				<u>\$ 1,776,140</u>
Net Assets - Ending				<u>\$ 2,052,237</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**VILLAGE OF SALADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Hotel/Motel Tax Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and Cash Equivalents	\$ 36,767	\$ 103,024	\$ 139,791
Investments	916,704	103,880	1,020,584
Interest Receivable	-	-	-
Taxes Receivable	195,095	36,935	232,030
Other Receivables	60,654	-	60,654
Intergovernmental Receivables	-	-	-
Due from Hotel/Motel Tax Fund	67,510	-	67,510
Total Assets	<u>\$ 1,276,730</u>	<u>\$ 243,839</u>	<u>\$ 1,520,569</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	\$ 15,579	\$ 4,785	\$ 20,364
Payroll expenses Payable	5,024	-	5,024
Intergovernmental Payable	-	-	-
Due to General Fund	-	67,510	67,510
Deferred Revenues	17,885	-	17,885
Other Current Liabilities	799	-	799
Total Liabilities	<u>\$ 39,287</u>	<u>\$ 72,295</u>	<u>\$ 111,582</u>
Fund Balances:			
Reserved for:			
Tourism	-	171,544	171,544
Unreserved and Undesignated:			
Reported in General Fund	1,237,443	-	1,237,443
Total Fund Balances	<u>\$ 1,237,443</u>	<u>\$ 171,544</u>	<u>\$ 1,408,987</u>
Total Liabilities and Fund Balances	<u>\$ 1,276,730</u>	<u>\$ 243,839</u>	<u>\$ 1,520,569</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds \$ 1,408,987

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,006,850 and the accumulated depreciation was \$264,873. The net effect of including the balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. \$ 722,098

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. Deferred property taxes not collected within 60 days. \$ (2)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and recording the current change in compensated absences payable. The net effect of these reclassifications and recognitions is to decrease net assets. \$ (78,846)

Net Assets of Governmental Activities \$ 2,052,237

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>General Fund</u>	<u>Hotel/Motel Tax Fund</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Taxes:			
Property Taxes	\$ 226,864	\$ -	\$ 226,864
General Sales and Use Taxes	266,490	-	266,490
Hotel Occupancy Tax	-	212,044	212,044
Franchise Fees	200,587	-	200,587
Mixed Beverage Taxes	13,986	-	13,986
Licenses and Permits	27,491	-	27,491
Intergovernmental Revenue and Grants	-	-	-
Charges for Services	4,231	-	4,231
Fines	43,029	-	43,029
Investment Earnings	3,421	504	3,925
Other Revenue	-	36,210	36,210
	<u>\$ 786,099</u>	<u>\$ 248,758</u>	<u>\$ 1,034,857</u>
<u>Expenditures</u>			
Current:			
General Government	255,017	-	255,017
Judicial	27,248	-	27,248
Public Safety:			
Police	186,875	-	186,875
Fire Protection	41,476	-	41,476
Public Works	54,125	-	54,125
Culture and Recreation:			
Parks	2,905	-	2,905
Tourism	-	233,177	233,177
Capital Outlay:			
Capital Outlay	44,689	-	44,689
	<u>\$ 612,335</u>	<u>\$ 233,177</u>	<u>\$ 845,512</u>
Net Changes in Fund Balances	\$ 173,764	\$ 15,581	\$ 189,345
Fund Balances - Beginning	\$ 1,063,679	\$ 155,963	\$ 1,219,642
Fund Balances - Ending	\$ 1,237,443	\$ 171,544	\$ 1,408,987

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	189,345
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2012 capital outlays is to increase net assets.	\$	44,689
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	\$	(39,337)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recording the current change in other receivables. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	\$	(4,988)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes not collected \$163,196		
Less prior year \$(76,808)		86,388
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>276,097</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS Revised and Restated
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Revised and Restated

The Village of Salado, Texas (the “Village”) was incorporated August 12, 2000, and operates as a general law type A municipality. It was originally misreported as a type B municipality. The Village operates under a mayor-aldermen form of government and provides the following services as authorized by its charter: general government, public safety, streets, community development (planning and zoning, licensing, permitting, and inspection), and culture and recreation.

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village’s accounting policies are described below:

A. Reporting Entity

The accompanying financial statements comply with the provisions of the GASB statements No. 14 and 39, “The Financial Reporting Entity,” in that the financial statements include all organizations, activities, functions, and component units for which the Village is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization’s governing body and either (1) the Village’s ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Village. There are no component units which satisfy requirements for blending within the Village’s financial statements or for discreet presentation.

B. Financial Statement Presentation

These financial statements comply with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments. Certain aspects of the reporting model are as follows:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Village’s overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the Village’s governmental and business type activities.
- Fund financial statements focusing on the major funds.
- Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted.

These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or invested in capital assets, net of related debt.”

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Village as a whole. These statements include all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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.

The statement of activities demonstrates the degree the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (if any), even though the latter are excluded from the government-wide financial statements.

D. Measurement focus and basis of accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Taxes, license fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The Village reports the following major governmental funds:

The ***General Fund*** is the general operating fund of the Village. It is used to account for all the financial resources of the Village.

The ***Hotel/Motel Tax Fund*** is used to account for the receipt of occupancy taxes levied by the Village. The proceeds are used to promote tourism, culture, and recreation within the Village.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement focus and basis of accounting (continued)

Unless otherwise noted, the figures represented in the *Notes to Financial Statements* are for the combined governmental funds.

As a general rule, the effect of the interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first to the extent available.

E. Cash and Temporary Investments

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and time deposits with initial maturities of three months or less.

Investments

Investments maturing within one year of date of purchase are stated at cost. All other investments are stated at fair value, which is based on quoted market prices.

F. Compensated Absences

The Village permits employees to accumulate earned but unused vacation pay benefits. Vacation pay is accrued when incurred in the governmental activities statement of net assets. In addition, sick leave accrued by employees prior to January 31, 2013 will be paid to employees upon separation of service. Sick leave accrued after that date is not subject to accrual. A liability for these amounts is only reported in the fund financial statements if they have matured, for example, as a result of an employee resignation or retirement.

G. Budgets

The Village adopts annual budgets covering its governmental and hotel/motel tax fund operations. The budget is amended as required. The budgets are adopted on the *modified accrual basis* of accounting, a basis consistent with generally accepted accounting principles (GAAP).

For the year ending September 30, 2014, general fund expenditures were more than budgeted in the administrative department by \$75,472. General fund revenues were \$188,906 more than budgeted.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The Village defines capital assets as assets with initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Village has elected, under the provisions of GASB Statement 34, to report infrastructure using the prospective method. General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all streets and other infrastructure assets acquired subsequent to October 1, 2003.

Property, plant, and equipment are depreciated using the straight line method over the following useful lives:

Asset Class	Years
Buildings	20 to 40
Machinery and Equipment	5 to 10
Infrastructure	40

I. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

J. Net Assets

Net Assets in the government-wide financial statements represent the difference between assets and liabilities. *Net assets invested in capital assets, net of related debt* 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Village or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

K. Use of Estimates

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

L. Tax Administration Revised and Restated

The Village is a general law type A municipality with a maximum tax rate for all purposes of \$1.50 per \$100 assessed valuation. This was previously reported incorrectly as a type B municipality and .25 per 100. This maximum tax rate is imposed by the Constitution of the State of Texas.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Tax Administration (continued)

All taxes due the City on real or personal property are collected by the Bell County Tax Assessor-Collector and may be paid at any time after the tax rolls have been completed and approved, which is not later than October 1. Current taxes become delinquent on February 1 following the tax year. There are various penalties for delinquent taxes. There are no discounts allowed on taxes. The procedure for collecting delinquent taxes is to refer to a collection attorney after sending delinquent notices. All properties located within the Village limits on January 1 of each year are charged with a special lien in favor of the Village from such date for taxes due thereon.

NOTE 2 – CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents for financial reporting includes funds invested in money market accounts and all certificates of deposit with a maturity of three months or less from the date of purchase. At September 30, 2014, the Village had total cash balances of \$1,160,374 held by four local financial institutions.

Deposits at year-end are representative of the types of deposits maintained by the Village during the year. The Village's deposits at year-end were entirely covered by federal depository insurance or by acceptable pledged collateral held by the Village's agent in the Village's name. During the entire year ending September 30, 2014, the Village's deposits were fully collateralized in accordance with state law.

Deposits in Tex Pool and Tex Pool Prime

Organized in 1989, Tex Pool is the largest and oldest local government investment pool in the State of Texas. Tex Pool currently provides investment services to over 2,000 communities throughout Texas. The State Comptroller of Public Accounts oversees Tex Pool. Federated Investors is the full service provider to the pools, managing the assets, providing Participant Services, and arranging for all custody and other functions in support.

Tex Pool and Tex Pool *Prime* are managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. Tex Pool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. Tex Pool *Prime* invests in the above plus, commercial paper and certificates of deposits. Tex Pool and Tex Pool *Prime* are each rated AAA by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. Tex Pool and Tex Pool *Prime*, like its participants, are governed by the Texas Public Funds Investment Act, and are in full compliance with the Act.

At September 30, 2014 the Village had deposits with Tex Pool in the amount of \$58,031 included in investments in the financial statements. The TexPool assets qualify as Cash and Cash Equivalents under the definition presented. The Village of Salado had Certificates of Deposit for \$600,000 with First State Bank with a maturity over 3 months.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 - CASH AND INVESTMENTS (continued)

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The Village is in compliance with the requirements of the Act and with local policies.

Custodial Credit Risk for Deposits

State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the Village and held by the Village or its agent. The Village's deposits are not subject to custodial credit risk, as all deposits are insured or covered by pledged securities.

Credit Risk

To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the Village limits investments to Tex Pool and Certificates of Deposit, either insured by the Federal Deposit Insurance Corporation, or its successors or fully collateralized as described above, with maturities not exceeding one year (see "*Custodial Credit Risk for deposits*" above).

Concentration of Credit Risk

To limit the risk of loss attributable to the magnitude of the Village's investment in a single issuer, the Village deposits/investments in only those entities who fully insure such deposits/investments or with Tex Pool, as described above. The Village has no concentration of credit risk as all deposits/investments are either insured or fully collateralized.

Interest Rate Risk

To limit the risk that changes in interest rates will adversely affect the fair value of investments, the Village does not invest in anything with a maturity date exceeding one year.

Foreign Currency Risk for Investments

The Village does not make investments denominated in any foreign currency.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 – RECEIVABLES

The following is a breakdown of the September 30, 2014, receivables, reported in the government-wide Statement of Net Assets:

Sales Tax Receivable	\$ 31,899
Occupancy Tax Receivable	36,935
Franchise Fees Receivable	60,654
Mixed Beverage Tax Receivable	-
Grant Proceeds Receivable	-
Ad Valorem Taxes Receivable	163,196
Other Amounts Due to Village	-
Total Receivables	<u>\$ 292,684</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance October 1, 2013	Additions	Deletions and Adjustment	Balance September 30, 2014
Capital Assets, not Being Depreciated				
Land and Improvements	\$ 45,577	\$ -	\$ -	\$ 45,577
Total Capital Assets not Being Depreciate	<u>\$ 45,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,577</u>
Capital Assets, Being Depreciated				
Building and Improvements	\$ 344,325	\$ -	\$ -	\$ 344,325
Infrastructure	326,147	-	-	326,147
Vehicles and Equipment	336,097	44,689	-	380,786
Total Capital Assets Being Depreciated	<u>\$ 1,006,569</u>	<u>\$ 44,689</u>	<u>\$ -</u>	<u>\$ 1,051,258</u>
Less Accumulated Depreciation for:				
Buildings	\$ (77,035)	\$ (8,086)	\$ -	\$ (85,121)
Infrastructure	(24,462)	(8,154)	-	(32,616)
Vehicles and Equipment	(233,903)	(23,097)	-	(257,000)
Total Accumulated Depreciation	<u>\$ (335,400)</u>	<u>\$ (39,337)</u>	<u>\$ -</u>	<u>\$ (374,737)</u>
Total Capital Assets Being Depreciated-N	<u>\$ 671,169</u>	<u>\$ 5,352</u>	<u>\$ -</u>	<u>\$ 676,521</u>
Total Net Capital Assets	<u>\$ 716,746</u>	<u>\$ 5,352</u>	<u>\$ -</u>	<u>\$ 722,098</u>

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation expense was charged to programs for the year ended September 30, 2014, as follows:

Administration	\$ 16,240
Police	15,484
Parks	7,613
Judicial	-
Public Works	-
	<u>\$ 39,337</u>

NOTE 5 – LONG-TERM LIABILITIES

The Village's long-term liabilities consists of an accrual for compensated absences payable. The changes in long-term debt during the year ended September 30, 2014 are as follows:

	<u>Balance 9-30-1.</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9-30-14</u>
Compensated Absences Payable	\$ 71,382	\$ 7,464	\$ -	\$ 78,846

NOTE 6 – RESERVATION AND DESIGNATION OF FUND BALANCES AND NET ASSETS

At September 30, 2014, the Village had reserved net assets in the amount of \$206,904. Purposes for the reservation are as follows:

Reserved for:

Tourism	\$ 206,904
Court Technology	-
Court Security	-
	<u>\$ 206,904</u>

In accordance with GASB 34, net assets reserved for court technology and court security are reported as deferred revenue under the modified accrual basis of accounting therefore, are not included in *Reserved Fund Balance*.

NOTE 7 – PROPERTY TAXES Revised and Restated

The Village's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the Village. The assessed value at January 1, 2014, upon which the 2014 levy was based, was \$189,053,333. The total levy assessed was \$226,864.

The tax assessment of September 15, 2014 set a tax levy at \$0.181 per \$100 of assessed valuation at 100 percent of assumed market value. The Village may levy a tax of up to \$0.25 per \$100 of assessed valuation. Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property. The tax rate was previously listed incorrectly at \$0.12 per \$100 of assessed valuation.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. At September 30, 2014, property taxes receivable are \$163,196.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The Village has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the Village in TML is limited to payment of premiums. During the year ended September 30, 2014, the Village paid premiums of approximately \$12,833 for provisions of various liability, property, and casualty insurance. The Village has various deductible amounts ranging from \$250 to \$10,000 on various policy cover ages. At year-end, the Village did not have any significant claims outstanding.

The Village also provides workers compensation insurance on its employees through TML. The workers compensation premiums for the year ended September 30, 2014, were approximately \$16,680. Workers compensation is subject to change when audited by TML. At year end September 30, 2014, the Village believed the amounts paid on workers compensation would not change significantly from the amounts recorded.

NOTE 9 – COMMITMENTS & CONTINGENCIES

Fire Department

The Village is under contract with the Salado Volunteer Fire Department. The contract states that the Fire Department agrees to provide fire protection and emergency services to the Village and its citizens on a 24-hour emergency response and on call basis during the term of the agreement. For consideration of the services, the Village agrees to pay the Fire Department an annual fee of \$36,000. The term of this agreement is on year, commencing November 1, 2013, and ending October 31, 2014.

NOTE 10 – PENSION PLAN

Plan Description

The Village provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Village 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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 10 – PENSION PLAN (continued)

Plan Description

The plan provisions are adopted by the governing body of the Village, within the options available in the state statutes governing TMRS. Plan provisions for the Village were as follows:

	Plan Year 2013	Plan Year 2014
Employee Deposit Rate	5.0%	5.0%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	January 5, 1900	January 5, 1900
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20	60/5, 0/20
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 normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Village contributes to the TMRS Plan at an actuarially determined rate. Both employees and the Village make contributions monthly. Since the Village 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:

Schedule of Funding Information

Actuarial Valuation Date	<u>12/31/2013</u>
Actuarial Value of Assets	\$ 362,120
Actuarial Accrued Liability	\$ 381,485
Unfunded / (Over-Funded) Actuarial Accrued Liability UAAL)	\$ 19,365
Funded Ratio	94.9%
Annual Covered Payroll	\$ 341,403
UAAL as a Percentage of Covered Payroll	13.0%

Trend Information

Fiscal Year Ending	<u>9/30/2014</u>	<u>9/30/2013</u>	<u>9/30/2012</u>
Annual Pension Cost	\$ 18,870	\$ 16,062	\$ 21,190
Percent of APC Contributed	100.0%	100.0%	100.0%
Net Pension Obligation	\$ -	\$ -	\$ -

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 10 – PENSION PLAN (continued)

Supplemental Death Benefits Fund

The Village also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Village elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Village may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The Village contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The Village's contributions to the TMRS SDBF for the years ended 2014, 2013, and 2012 were \$18,870, \$16,062, and \$21,190, respectively, which equaled the required contributions each year.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	(GAAP BASIS)	Positive (Negative)
Revenues:				
Taxes				
Ad Valorem Taxes	\$ 233,949	\$ 233,949	\$ 226,864	\$ (7,085)
General Sales and Use Taxes	329,999	329,999	266,490	(63,509)
Franchise Fees	208,500	208,500	200,587	(7,913)
Mixed Beverage Tax	5,001	5,001	13,986	8,985
Licenses and Permits	11,500	11,500	27,491	15,991
Intergovernmental Revenue & Grants	-	-	-	-
Charges for Services	9,500	9,500	4,231	(5,269)
Fines	44,100	44,100	43,029	(1,071)
Investment Earnings	3,000	3,000	3,421	421
Other Revenue	-	-	-	-
Total Revenues	<u>\$ 845,549</u>	<u>\$ 845,549</u>	<u>\$ 786,099</u>	<u>\$ (59,450)</u>
Expenditures:				
General Government	\$ 294,868	\$ 294,868	\$ 255,017	\$ 39,851
Judicial	27,500	27,500	27,248	252
Police	327,060	327,060	186,875	140,185
Fire Protection	31,125	31,125	41,476	(10,351)
Public Works	271,676	271,676	54,125	217,551
Capital Outlay	-	-	44,689	(44,689)
Parks	6,900	6,900	2,905	3,995
Total Expenditures	<u>\$ 959,129</u>	<u>\$ 959,129</u>	<u>\$ 612,335</u>	<u>\$ 346,794</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (113,580)</u>	<u>\$ (113,580)</u>	<u>\$ 173,764</u>	<u>\$ 287,344</u>

VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – HOTEL/MOTEL TAX FUND
SEPTEMBER 30, 2014

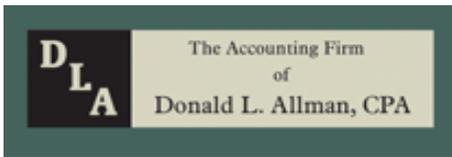
	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	(GAAP BASIS)	Positive (Negative)
Revenues:				
Occupancy Tax	\$ 215,000	\$ 215,000	\$ 212,044	\$ (2,956)
Interest Income	500	500	504	4
Other Revenue	24,300	24,300	36,210	11,910
Total Revenues	<u>\$ 239,800</u>	<u>\$ 239,800</u>	<u>\$ 248,758</u>	<u>\$ 8,958</u>
Expenditures:				
Overhead	\$ 145,193	\$ 145,193	\$ 121,414	\$ 23,779
Sales & Marketing	64,707	64,707	64,802	(95)
Visitor Services	14,000	14,000	14,588	(588)
Special Projects	7,000	7,000	7,385	(385)
Contingency	1,000	1,000	12,392	(11,392)
Way Finding Signage	-	-	146	(146)
Website	1,000	1,000	-	1,000
Chocolate Festival	1,600	1,600	5,810	(4,210)
Salado Swirl, Salado on the Rocks	5,300	5,300	6,640	(1,340)
Total Expenditures	<u>\$ 239,800</u>	<u>\$ 239,800</u>	<u>\$ 233,177</u>	<u>\$ 6,623</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,581</u>	<u>\$ 15,581</u>

VILLAGE OF SALADO, TEXAS
SCHEDULE OF FUNDING PROGRESS
Texas Municipal Retirement System
LAST FIVE FISCAL YEARS

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	97,386	145,152	47,766	67.1%	263,343	18.1%
12/31/2010	226,990	272,302	45,312	83.4%	292,222	15.5%
12/31/2011	273,244	313,086	39,842	87.3%	307,548	13.0%
12/31/2012	316,847	354,921	38,074	89.3%	302,447	13.0%
12/31/2013	362,120	381,485	19,365	94.9%	341,403	5.8%

* Assets are stated at cost as of December 31 of the preceding year.

INTERNAL CONTROL AND COMPLIANCE



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CERTIFIED PUBLIC ACCOUNTANT

**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**

To the Honorable Mayor and
Members of the City Council
Village of Salado, 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, each major fund, and the aggregate remaining fund information of Village of Salado, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Village of Salado, Texas' basic financial statements, and have issued our report thereon dated April 16, 2015.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Salado, Texas' financial statements are free from 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*.

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.

Donald. L. Allman, CPA, PC
Georgetown, TX

April 16, 2015