

ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2011

City of Royse City, Texas

*City Manager
Bill Shipp, Jr.*

*Chief Financial Officer
Joe Stegall*



**CITY OF ROYSE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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FINANCIAL SECTION





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March 19, 2012

Independent Auditor's Report

Mayor and City Council
City of Royse City
305 North Arch Street
Royse City, Texas 75189

Members of the City Council:

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 Royse City, Texas ("City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Royse City, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Royse City as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated March 19, 2012, on our consideration of the City of Royse City, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the TMRS Funding Progress and Contributions on pages 5 to 15, 53, and 54, respectively, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Royse City, Texas' financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully Submitted,

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CITY OF ROYSE CITY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2011

As management of the City of Royse City, we offer the 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, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$8,124,594 (net assets). Of this amount, \$4,559,072 is restricted for debt service, use of impact fees, capital projects, police use, court use, hotel/motel use, and escrow payable. The amount of unrestricted net assets is \$(913,751).
- The government's total net assets increased by \$2,500,152, excluding prior period adjustments, due to increases in both the Government-type activities net assets and Business-type net assets.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,384,681, an increase of \$1,107,617, or 525%, excluding prior period adjustments, in comparison with the prior year. None of the unassigned fund balance, (\$256,822), is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General fund of \$(271,918) was (6)% of total general fund expenditures for the fiscal year.
- The City's total long-term debt decreased by \$(205,773), or 1%, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Royse City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2011**

Basic Financial Statements

The first two statements (pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 22-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** (pages 29-49). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 53-54) is provided to show details about the City's budgetary comparison schedule and pension plan.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. In order to assess the overall health or financial condition of the City, other non-financial factors should also be taken into consideration. These include changes in the City's property tax base and the condition of the City's infrastructure.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave, if material value). 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 used in prior reporting methods.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system, airport, and civic center activity are reported as business-type activities. The final category is the component unit. The City includes one separate legal entity in its report – the Royse City Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financially accountable for them.

The government-wide financial statements are on pages 19 - 21 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. 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. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Royse City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation following the fund financial statements.

The City of Royse City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 22-25 of this report. The General Fund Budgetary Comparison Schedule can be found on page 53.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, such as cash flows.

The City of Royse City maintains one individual proprietary fund: the Water and Sewer Fund.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

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. The notes to the financial statements start on page 29 of this report.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2011**

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. This information is on pages 53-54 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2011 continue the implementation of a new standard of financial reporting for the City of Royse City, and many other units of government across the United States. Prior to fiscal year 2004, the City maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Royse City. These statements were basically the equivalent of the fund financial statements that appear in this report and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Royse City's financial reports as well as those of many other units of government. While the City of Royse City was required to implement these changes for the fiscal year ended September 30, 2004, other units were required to implement Statement 34 in 2002 and 2003.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2011**

The City of Royse City Net Assets

Figure 1

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,883,715	\$ 888,086	\$ 5,163,820	\$ 6,714,502	\$ 7,047,535	\$ 7,602,588
Capital assets	10,963,488	11,159,195	13,543,841	10,325,255	24,507,329	21,484,450
Total assets	12,847,203	12,047,281	18,707,661	17,039,757	31,554,864	29,087,038
Current liabilities	252,290	524,610	962,477	590,867	1,214,767	1,115,477
Long-term liabilities	9,712,083	9,778,726	12,503,420	12,742,542	22,215,503	22,521,268
Total liabilities	9,964,373	10,303,336	13,465,897	13,333,409	23,430,270	23,636,745
Net assets:						
Invested in capital assets, net of related debt	1,401,653	1,614,477	3,077,620	2,396,908	4,479,273	4,011,385
Restricted	1,641,503	1,057,081	2,917,569	288,961	4,559,072	1,346,042
Unrestricted	(160,326)	(927,613)	(753,425)	1,020,479	(913,751)	92,866
Total net assets	\$ 2,882,830	\$ 1,743,945	\$ 5,241,764	\$ 3,706,348	\$ 8,124,594	\$ 5,450,293

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City exceeded liabilities by \$8,124,594 as of September 30, 2011. The City's net assets increased by \$2,500,152, excluding prior period adjustments, for the fiscal year ended September 30, 2011. However, the largest portion (55%) reflects the City's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net assets, 58%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of (\$913,751) is unrestricted.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2011**

The City of Royse City Changes in Net Assets

Figure 2

	Governmental Activities		Business Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 1,432,852	\$ 1,343,149	\$ 4,357,385	\$ 3,543,855	\$ 5,790,237	\$ 4,887,004
Operating Grants and Contributions	151,603	122,957	-	-	151,603	122,957
Capital Grants and Contributions	146,032	128,322	-	-	146,032	128,322
General Revenues:						
Property Taxes	3,184,466	3,076,420	-	-	3,184,466	3,076,420
Sales Taxes	1,000,337	848,288	-	-	1,000,337	848,288
Franchise Taxes	356,692	345,882	-	-	356,692	345,882
Hotel/Motel Taxes	61,539	49,061	-	-	61,539	49,061
Investment Income	3,767	11,341	8,264	8,355	12,031	19,696
Other	211,265	65,219	10,027	95,129	221,292	160,348
Total Revenues	<u>6,548,553</u>	<u>5,990,639</u>	<u>4,375,676</u>	<u>3,647,339</u>	<u>10,924,229</u>	<u>9,637,978</u>
Expenses:						
Program Expenses						
General Government	2,105,538	2,082,502	-	-	2,105,538	2,082,502
Fire	394,234	266,473	-	-	394,234	266,473
Police	1,454,333	1,544,662	-	-	1,454,333	1,544,662
Streets	324,558	292,210	-	-	324,558	292,210
Municipal Court	322,816	345,161	-	-	322,816	345,161
Community Services	179,661	230,222	-	-	179,661	230,222
Parks	260,177	249,544	-	-	260,177	249,544
Library	99,018	103,795	-	-	99,018	103,795
Community Development	13,596	15,112	-	-	13,596	15,112
Environmental Services	105,041	99,218	-	-	105,041	99,218
Interest on Long-Term Debt	441,734	467,198	-	-	441,734	467,198
Water and Sewer	-	-	2,723,371	2,941,055	2,723,371	2,941,055
Total Expenses	<u>5,700,706</u>	<u>5,696,097</u>	<u>2,723,371</u>	<u>2,941,055</u>	<u>8,424,077</u>	<u>8,637,152</u>
Change in Net Assets before Other Revenues and Financing Sources	847,847	294,542	1,652,305	706,284	2,500,152	1,000,826
Other Revenues						
Transfers	224,857	246,117	(224,857)	(246,117)	-	-
Total Other Revenues	<u>224,857</u>	<u>246,117</u>	<u>(224,857)</u>	<u>(246,117)</u>	<u>-</u>	<u>-</u>
Total Change in Net Assets	1,072,704	540,659	1,427,448	460,167	2,500,152	1,000,826
Net assets - October 1	1,743,945	1,102,986	3,706,348	3,287,508	5,450,293	4,390,494
Prior Period Adjustments	66,181	100,300	107,968	(41,327)	174,149	58,973
Net assets - September 30	<u>\$ 2,882,830</u>	<u>\$ 1,743,945</u>	<u>\$ 5,241,764</u>	<u>\$ 3,706,348</u>	<u>\$ 8,124,594</u>	<u>\$ 5,450,293</u>

**CITY OF ROYSE CITY, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2011**

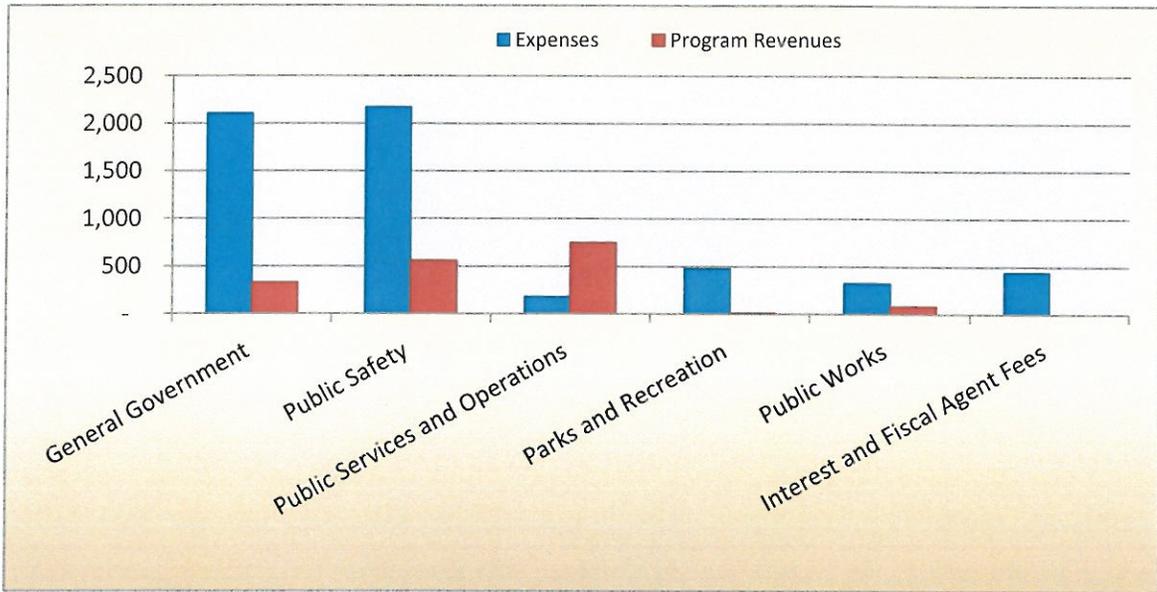
Governmental-type activities - Governmental-type activities increased the City's net assets \$1,072,704. Key elements of this increase are as follows:

Program revenues increased by \$136,059, or 8.5%.

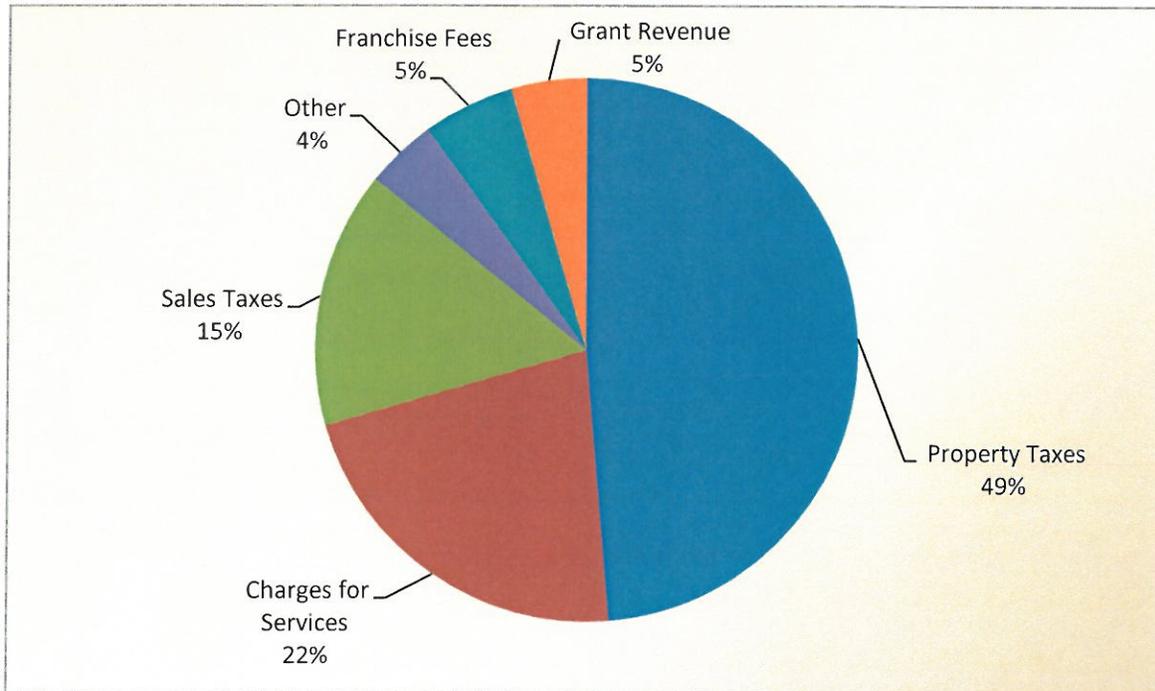
General revenues increased by \$421,855, or 9.6%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues By Source - Governmental Activities

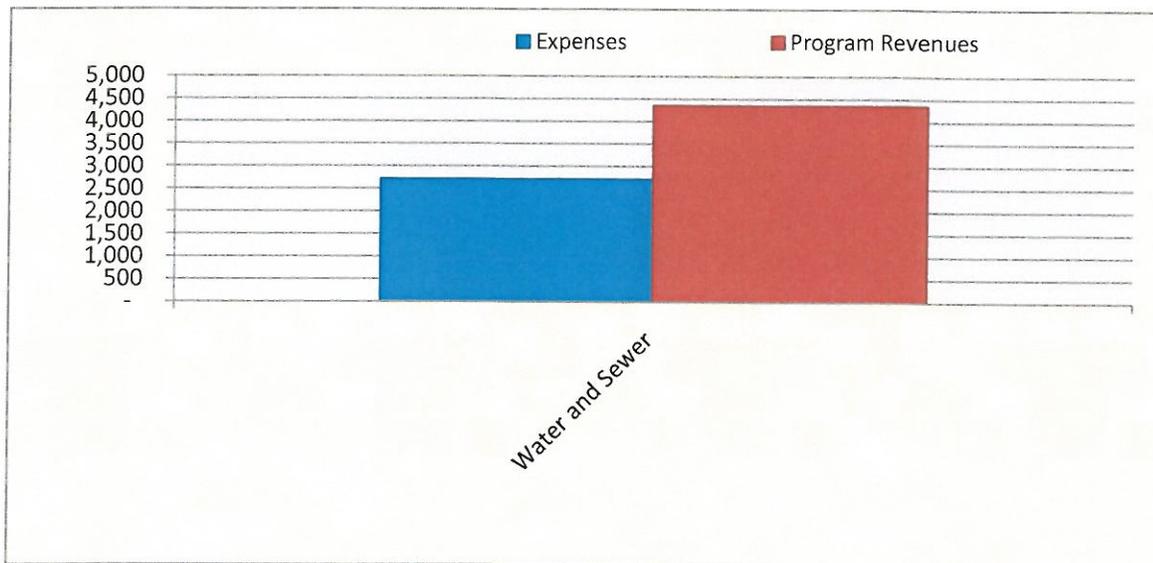


**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2011**

Business-type Activities - Business-type activities increased the City of Royse City's net assets by \$1,427,448. A key element of this increase is as follows:

Program revenues exceeded program expenses by 61% in the current year as opposed to 20% in the prior year.

**Expenditures and Program Revenues - Business Activities
(amounts expressed in thousands)**



**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2011**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Royse City. At the end of the current fiscal year, unassigned fund balance of the General Fund was (\$271,918). As a measure of the general fund's liquidity, it may be useful to compare the unrestricted fund balance to total fund expenditures. Unassigned fund balance represents (6)% of total General Fund expenditures.

At September 30, 2011, the governmental funds of the City of Royse City reported a combined fund balance of \$1,384,681, a \$1,107,617, or 525%, increase from last year, excluding prior period adjustments.

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget for several items. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were higher than the budgeted amounts mainly in the areas of sales tax, miscellaneous and refuse collection fee revenues.

Expenditures were lower than budgeted amounts in all except the fire department, municipal court, senior citizens center, and interest.

Proprietary Funds - The City of Royse City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to (\$753,425).

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2011**

Capital Asset and Debt Administration

Capital assets - The City of Royse City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, totals \$24,507,329 (net of accumulated depreciation). These assets include land, buildings, infrastructure, improvements, machinery & equipment, vehicles and construction in progress. The decrease in the City of Royse City's capital assets for governmental activities was 2%. The capital assets for the business-type activities increased by 31%.

Major capital asset transactions during the year include the following additions:

- Improvements to Walker Hawk Park Trail
- Ongoing improvements to the water and sewer system

**Figure 3
City of Royse City
Capital Assets
September 30,
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 904,165	\$ 904,165	\$ 216,827	\$ 216,827	\$ 1,120,992	\$ 1,120,992
Construction in Progress	-	-	3,602,047	273,529	3,602,047	273,529
Certificate of Convenience	-	-	200,500	200,500	200,500	200,500
Infrastructure	-	-	9,454,091	9,520,686	9,454,091	9,520,686
Buildings & Improvements	9,286,363	9,302,067	8,926	9,993	9,295,289	9,312,060
Machinery & Equipment	178,285	254,433	19,426	28,721	197,711	283,154
Vehicles	594,675	698,530	42,024	74,998	636,699	773,528
Total	\$10,963,488	\$11,159,195	\$13,543,841	\$10,325,254	\$24,507,329	\$21,484,449

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

Long-Term Debt - As of September 30, 2011 the City of Royse City had total long-term debt outstanding of \$22,140,227, a decrease of \$(205,773), or 1%, in comparison with the prior year.

**Figure 4
City of Royse City
General Obligation Bonds and Certificates of Obligation
As of September 30,**

	Governmental		Business-type		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 366,444	\$ 509,958	\$ 678,783	\$ 751,042	\$ 1,045,227	\$ 1,261,000
Certificates of Obligation	9,190,000	9,025,000	11,905,000	12,060,000	21,095,000	21,085,000
	\$ 9,556,444	\$ 9,534,958	\$12,583,783	\$12,811,042	\$22,140,227	\$22,346,000

More detailed information about the City's long-term obligations is presented in Note G to the financial statements.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2011**

Economic Factors and Next Year's Budgets and Rates

The approved budget for the General Fund FY 2011-2012 reflects a 4% increase over the current year budgeted revenue. This is due to increases in property and franchise tax revenues. The Water and Sewer Fund reflects a similar budget to Fiscal Year 2011.

This budget will raise more total property taxes than the current year budget by \$23,742 generated by tax revenue from new property added to the tax rolls.

The adopted tax rate for FY 2011-2012 will increase to \$0.6729 per \$100 valuation.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City Clerk, P.O. Box 638, Royse City, TX 75189.



BASIC FINANCIAL STATEMENTS



**CITY OF ROYSE CITY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

	Primary Government		Total	Component Unit
	Governmental Activities	Business-type Activities		EDC
ASSETS				
Cash and cash equivalents	\$ 760,896	\$ 389,599	\$ 1,150,495	\$ 787,224
Receivables, net of allowance for uncollectibles	340,171	666,671	1,006,842	55,194
Receivables - EDC	34,224	-	34,224	-
Deferred charges	178,997	389,536	568,533	-
Internal balances	(743,172)	743,172	-	-
Inventories	-	57,273	57,273	-
Restricted assets:				
Cash and cash equivalents	1,312,599	2,917,569	4,230,168	-
Capital assets:				
Non-depreciable	904,165	4,019,374	4,923,539	-
Depreciable, net	10,059,323	9,524,467	19,583,790	-
Total Assets	12,847,203	18,707,661	31,554,864	842,418
LIABILITIES				
Accounts payable	61,238	241,915	303,153	-
Accounts payable - City	-	-	-	34,224
Escrow payable	-	375,000	375,000	-
Accrued expenses	137,345	4,454	141,799	-
Customer deposits	-	264,778	264,778	-
Accrued interest payable	53,707	76,330	130,037	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	6,297	566	6,863	-
Capital lease	71,092	21,926	93,018	-
Notes payable	24,000	-	24,000	-
Bonds payable	140,988	146,012	287,000	-
Certificates of obligation	395,000	170,000	565,000	-
Due in more than one year:				
Compensated absences	56,670	5,094	61,764	-
Capital lease	6,280	-	6,280	-
Notes payable	72,000	-	72,000	-
Bonds payable	232,303	580,531	812,834	-
Certificates of obligation	8,707,453	11,579,291	20,286,744	-
Total Liabilities	9,964,373	13,465,897	23,430,270	34,224
NET ASSETS				
Investment in capital assets, net of related debt	1,401,653	3,077,620	4,479,273	-
Restricted for:				
Debt service	899,847	-	899,847	-
Impact fee use	-	631,146	631,146	-
Capital projects	548,394	2,009,750	2,558,144	-
Police use	49,498	-	49,498	-
Municipal Court	37,377	-	37,377	-
Hotel/Motel use	106,387	-	106,387	-
Escrow payable	-	276,673	276,673	-
Unrestricted	(160,326)	(753,425)	(913,751)	808,194
Total Net Assets	\$ 2,882,830	\$ 5,241,764	\$ 8,124,594	\$ 808,194

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

CITY OF ROYSE CITY, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Function/Program Activities	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 2,105,538	\$ 65,343	\$ 116,813	\$ 146,032
Police	1,454,333	437,232	-	-
Fire	394,234	71,493	34,790	-
Streets	324,558	82,836	-	-
Municipal court	322,816	16,640	-	-
Community services	179,661	748,617	-	-
Parks	260,177	1,450	-	-
Library	99,018	1,196	-	-
Community development	13,596	56	-	-
Main street	-	7,989	-	-
Environmental services	105,041	-	-	-
Interest on long-term debt	441,734	-	-	-
Total governmental activities	5,700,706	1,432,852	151,603	146,032
Business-type Activities:				
Water and sewer	2,723,371	4,357,385	-	-
Total business-type activities	2,723,371	4,357,385	-	-
Total primary government	8,424,077	5,790,237	151,603	146,032
Component Unit				
Economic Development Corporation	320,272	-	-	-
Total component unit	\$ 320,272	\$ -	\$ -	\$ -

General revenues:

Property taxes
Sales taxes
Franchise taxes
Hotel/Motel taxes
Investment income
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Prior Period Adjustment
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Activities	Total	EDC
\$ (1,777,350)	\$ -	\$ (1,777,350)	\$ -
(1,017,101)	-	(1,017,101)	-
(287,951)	-	(287,951)	-
(241,722)	-	(241,722)	-
(306,176)	-	(306,176)	-
568,956	-	568,956	-
(258,727)	-	(258,727)	-
(97,822)	-	(97,822)	-
(13,540)	-	(13,540)	-
7,989	-	7,989	-
(105,041)	-	(105,041)	-
(441,734)	-	(441,734)	-
<u>(3,970,219)</u>	<u>-</u>	<u>(3,970,219)</u>	<u>-</u>
-	1,634,014	1,634,014	-
-	1,634,014	1,634,014	-
<u>(3,970,219)</u>	<u>1,634,014</u>	<u>(2,336,205)</u>	<u>-</u>
-	-	-	(320,272)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (320,272)</u>
3,184,466	-	3,184,466	-
1,000,337	-	1,000,337	332,134
356,692	-	356,692	-
61,539	-	61,539	-
3,767	8,264	12,031	421
211,265	10,027	221,292	1,451
224,857	(224,857)	-	-
<u>5,042,923</u>	<u>(206,566)</u>	<u>4,836,357</u>	<u>334,006</u>
1,072,704	1,427,448	2,500,152	13,734
1,743,945	3,706,348	5,450,293	794,460
66,181	107,968	174,149	-
<u>\$ 2,882,830</u>	<u>\$ 5,241,764</u>	<u>\$ 8,124,594</u>	<u>\$ 808,194</u>

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

**CITY OF ROYSE CITY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	General Fund	Debt Service	2007 Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 673,633	\$ -	\$ -	\$ 87,263	\$ 760,896
Receivables, net	243,648	96,523	-	-	340,171
Receivables - EDC	34,224	-	-	-	34,224
Due from other funds	-	299,969	-	-	299,969
Restricted - Cash and cash equivalents	-	608,320	548,394	155,885	1,312,599
Total Assets	951,505	1,004,812	548,394	243,148	2,747,859
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	60,738	500	-	-	61,238
Accrued expenses	137,345	-	-	-	137,345
Due to other funds	1,008,351	-	-	34,790	1,043,141
Deferred revenues	16,989	104,465	-	-	121,454
Total Liabilities	1,223,423	104,965	-	34,790	1,363,178
Fund Balances					
Restricted for:					
Debt service	-	899,847	-	-	899,847
Capital projects	-	-	548,394	-	548,394
Police	-	-	-	49,498	49,498
Municipal court use	-	-	-	37,377	37,377
Hotel/Motel Use	-	-	-	106,387	106,387
Unassigned	(271,918)	-	-	15,096	(256,822)
Total Fund Balances	(271,918)	899,847	548,394	208,358	1,384,681
Total Liabilities and Fund Balances	\$ 951,505	\$ 1,004,812	\$ 548,394	\$ 243,148	\$ 2,747,859

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

**CITY OF ROYSE CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Total fund balances - governmental funds balance sheet	\$ 1,384,681
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,406,718
Accumulated depreciation has not been included in the governmental fund financial statements.	(2,443,230)
Certain bond related items are expensed at the fund level, but are capitalized at the government-wide level and amortized over the life of the asset.	178,997
Other assets not available to pay for current-period expenditures and, therefore are deferred in the funds.	121,454
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(9,649,116)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(62,967)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an expenditure is reported when due.	(53,707)
	<hr/>
Net assets of governmental activities - statement of net assets	<u><u>\$ 2,882,830</u></u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General Fund	Debt Service	2007 Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property, including P&I	\$ 1,235,489	\$ 1,872,233	\$ -	\$ -	\$ 3,107,722
Sales	1,000,337	-	-	-	1,000,337
Franchise	356,692	-	-	-	356,692
Hotel/Motel	-	-	-	61,539	61,539
Fines and fees	611,493	-	-	16,640	628,133
Licenses and permits	18,894	-	-	-	18,894
Refuse collection fees	727,496	-	-	-	727,496
Grants	83,627	-	-	214,008	297,635
Donations	1,196	-	-	16,739	17,935
Investment income	1,550	1,742	316	159	3,767
Miscellaneous	170,150	-	9,364	31,751	211,265
Total Revenues	4,206,924	1,873,975	9,680	340,836	6,431,415
EXPENDITURES					
Current:					
Administrative	1,835,357	-	-	-	1,835,357
Police	1,362,054	-	-	45,788	1,407,842
Fire department	321,370	-	-	34,790	356,160
Streets	174,751	-	-	-	174,751
Municipal court	316,446	-	-	2,367	318,813
Community services	167,064	-	-	-	167,064
Parks	232,412	-	-	-	232,412
Library	79,828	-	-	6,721	86,549
Museum	12,946	-	-	-	12,946
Senior citizens center	80,404	-	-	-	80,404
Main street	60,101	-	-	7,655	67,756
Environmental services	105,041	-	-	-	105,041
Community development	-	-	-	13,596	13,596
Miscellaneous	-	-	-	1,345	1,345
Debt service:					
Principal retirement	91,683	513,514	-	-	605,197
Interest	7,530	430,650	-	-	438,180
Bond issuance costs	-	-	35,000	-	35,000
Capital outlays	-	-	5,568	180,068	185,636
Total Expenditures	4,846,987	944,164	40,568	292,330	6,124,049
Excess (deficiency) of revenues over (under) expenditures	(640,063)	929,811	(30,888)	48,506	307,366
Other Revenues and Financing Sources (uses)					
Transfers	1,048,755	(823,898)	-	-	224,857
Bond proceeds	-	-	535,000	-	535,000
Insurance refund	7,955	-	-	-	7,955
Intragovernmental revenue	-	-	-	32,439	32,439
Total other financing sources	1,056,710	(823,898)	535,000	32,439	800,251
Net Change in fund balances	416,647	105,913	504,112	80,945	1,107,617
Fund Balances, October 1	(754,746)	793,934	44,282	127,413	210,883
Prior Period Adjustments	66,181	-	-	-	66,181
Fund Balances, September 30	\$ (271,918)	\$ 899,847	\$ 548,394	\$ 208,358	\$ 1,384,681

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

**CITY OF ROYSE CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Net change in fund balances - statement of revenues, expenditures and
changes in fund balances - governmental funds** **\$ 1,107,617**

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

Current year capital outlays are expenditures in the fund financial statements,
but these are shown as an increase in capital assets in the government-wide
financial statements. The effect of removing the 2010 capital outlays is to
increase net assets. 185,636

Depreciation is not recognized as an expense in governmental funds since it
does not require the use of current financial resources. The effect of recording
the current year's depreciation is to decrease net assets. (381,343)

Current year long-term debt principal payments on bonds payable and capital
leases are expenditures in the fund financial statements but are shown as
reduction in long-term debt in the government-wide financial statements. 605,197

Current year bond proceeds are other financing sources in the fund financial
statements but are shown as an increase in the liabilities of the government-
wide financial statements. (535,000)

Interest is accrued on outstanding debt in the government-wide financial
statements, whereas in the fund financial statements an interest expenditure is
reported when due. (3,553)

Bond issuance costs are expenditures in the fund financial statements when
debt is issued, but are amortized over the term of the bond in the government-
wide financial statements. 35,000

Amortization of bond issuance costs is not recognized in the governmental
funds. The effect of recording current years amortization is to decrease net
assets. (17,597)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenue in the fund financial statements. 76,747

Change in net assets - governmental funds **\$ 1,072,704**

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2011**

	<u>Water & Sewer</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 389,599
Receivables, net	666,671
Due from other funds	743,172
Inventories	57,273
Total Current Assets	<u>1,856,715</u>
Noncurrent Assets:	
Cash and cash equivalents - Restricted	2,917,569
Deferred charges	389,536
Capital assets:	
Land	216,827
Intangible asset	200,500
Machinery & equipment	223,081
Buildings	39,551
Vehicles	261,364
Infrastructure	11,490,776
Construction in progress	3,602,047
Less: accumulated depreciation	<u>(2,490,305)</u>
Total capital assets, net	<u>13,543,841</u>
Total noncurrent assets	<u>16,850,946</u>
Total Assets	<u><u>18,707,661</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities:	
Accounts payable	241,915
Escrow payable	375,000
Customer deposits	264,778
Accrued interest	76,330
Accrued expenses	4,454
Compensated absences - current	566
Capital leases - current	21,926
Certificates of obligation - current	170,000
Bonds payable - current	146,012
Total Current Liabilities	<u>1,300,981</u>
Noncurrent liabilities:	
Compensated absences	5,094
Certificates of obligation	11,579,291
Bonds payable	580,531
Total noncurrent liabilities	<u>12,164,916</u>
Total liabilities	<u><u>13,465,897</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	3,077,620
Restricted for:	
Impact fee use	631,146
Capital projects	2,009,750
Escrow payable	276,673
Unrestricted	<u>(753,425)</u>
Total Net Assets	<u><u>\$ 5,241,764</u></u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Water & Sewer</u>
OPERATING REVENUES:	
Charges for services - water	\$ 2,673,753
Charges for services - sewer	1,468,609
Water impact fees	99,637
Penalty and reconnect fees	115,386
Other services	10,027
Total Operating Revenues	<u>4,367,412</u>
OPERATING EXPENSES:	
Water operations	1,306,308
Sewer operations	902,795
Depreciation/amortization	330,596
Total Operating Expenses	<u>2,539,699</u>
Operating Income (Loss)	<u>1,827,713</u>
NON-OPERATING REVENUES (EXPENSES):	
Bond issuance costs	(33,865)
Interest revenue	8,264
Interest expense	(149,807)
Total Non-Operating Revenues (Expenses)	<u>(175,408)</u>
Transfers	<u>(224,857)</u>
Change in Net Assets	1,427,448
Net Assets, October 1	3,706,348
Prior Period Adjustments	107,968
Net Assets, September 30	<u>\$ 5,241,764</u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Business-Type Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,868,585
Cash received from other sources	109,664
Cash paid to employees	(309,174)
Cash paid to suppliers	(1,412,210)
Net cash provided by operating activities	<u>2,256,865</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(224,857)
Net cash used for non-capital financing activities	<u>(224,857)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(3,552,980)
Bond proceeds	4,157,875
Principal paid	(4,396,997)
Interest paid	(157,948)
Net cash provided (used) by capital & related financing activities	<u>(3,950,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	8,264
Net cash provided by investing activities	<u>8,264</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,909,778)
Cash and Cash Equivalents at Beginning of Year	5,216,946
Cash and Cash Equivalents at End of Year	<u>\$ 3,307,168</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operation Activities:	
Operating Income	\$ 1,827,713
Adjustment to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	330,596
Prior period adjustment	107,968
Change in Assets and Liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(389,163)
Increase (decrease) in liabilities:	
Accounts payable	157,076
Escrow payable	225,000
Customer deposits	(2,325)
Total adjustments	<u>429,152</u>
Net cash provided by operating activities	<u>\$ 2,256,865</u>

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

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Royse City, Texas ("City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local government include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board when applicable. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The more significant accounting policies of the City are described below.

1. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the original adopted and final amended General Fund budget with actual results.

2. Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by Government Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to the primary government.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Significant Accounting Policies

2. Reporting Entity (continued)

Discretely presented component units. The Royse City Economic Development Corporation ("EDC") is a discretely presented component unit of the City. The EDC is governed by a board of seven members, all of whom are appointed by the City Council of the City of Royse City and whom can be removed from office by the City Council at its will. The EDC was incorporated in the state of Texas in 1998. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. There are no separate financial statements issued for the EDC.

3. New Accounting Pronouncements

Government Accounting Standards Board Statement No. 54 ("GASB 54")

For the fiscal year ended September 30, 2011, the City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section of this footnote.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Fund and special revenue fund type are also clarified by the provisions in this statement.

4. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component unit. As a general rule the effect of interfund activity has been eliminated. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The net cost (by function or business-type activity) is normally covered by general revenue (property and sales tax, franchise fees, and interest income).

The net cost (by function or business-type activity) is normally covered by general revenue (property and sales taxes, franchise fees, and interest income).

Fund Financial Statements: The fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund and the capital projects fund. The major proprietary fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

4. Basis of Presentation, Basis of Accounting (continued)
 - b. Measurement Focus, Basis of Accounting

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government-wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. 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, regardless of when the related cash flows take place.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, in other words, 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due and payable shortly after year-end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

Proprietary Fund Financial Statements: Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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. The principal operating revenues of the City's water, sewer and environmental waste services are charges to customers for sales and services. Operating expenses for the Proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major Governmental Funds of the City:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for the principal and interest on long-term obligation debt of governmental funds.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Significant Accounting Policies

4. Basis of Presentation, Basis of Accounting
b. Measurement Focus, Basis of Accounting (continued)

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. Such resources are derived principally from bond proceeds.

2. Proprietary Funds:

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

The focus of Proprietary Funds measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the major Proprietary Funds of the City:

The *Water and Sewer Fund* accounts for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

3. Other Fund Types:

Agency funds are used to account for assets held by the City in an agency capacity for individuals. Agency funds record only assets and liabilities and therefore have no measurement focus.

Currently, the City does not have any agency or fiduciary funds.

5. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash from all fund types to increase the amount of funds available for investment. Interest earnings are allocated to the respective funds based upon each fund's relative balance in the pool. Each fund may liquidate its equity in the pool on demand.

b. Receivable and Payable Balances

Trade and property tax receivables are shown net of an allowance for uncollectibles.

c. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at fund level.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts

c. Property Taxes (continued)

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. For the fiscal year September 30, 2011, the City had a tax rate of \$0.31 per \$100 assessed valuation based upon the maximum rates described above.

d. Deferred Charges

Deferred charges reported at the government-wide level and in proprietary funds are comprised of the balance of unamortized debt issuance costs. Issuance costs are amortized over the life of the related debt using a straight-line method.

e. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of the other governments, or are imposed by law through constitutional provisions or enabling legislation. Certain proceeds of the proprietary fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, customer deposits received for water and wastewater services are classified as restricted assets. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

f. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For fiscal year 2011, \$527,184 of such interest costs were capitalized in the Proprietary Funds.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Vehicles	4-20
Office Furniture and equipment	5
Machinery and equipment	10
Buildings and Improvements	7-50
Infrastructure	40

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts (continued)

g. Compensated Absences

It is the City's policy to pay a separating employee with at least six months of continuous service unused vacation leave not to exceed 80 hours. The rate of pay will be determined by the salary rate in effect at the time of separation. As such, there is an accrual at the close of the fiscal year end in the government-wide and proprietary fund financial statements for the amount due to all employees as of September 30, 2011. No unused sick or holiday leave will be paid out upon termination of employment.

h. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis. The City has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

i. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the City's highest level of decision-making authority (the Council) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance - amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the City's special revenue funds.

Unassigned fund balance - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

A summary of the City's fund balance policy as adopted by the Council follows:

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts

i. Fund Equity (continued)

The City believes that adequate levels of fund balance are essential in mitigating financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. In order to comply with GASB 54, the City's fund balances now focus on "the extent to which the government is bound to honor constraints on specific purposes for which amounts in the fund can be spent." The goal is to maintain a minimum unassigned fund balance in the general fund equal to 25% of expenditures, with 20% or less being cause for concern.

Additional detailed information, along with the complete Fund Balance Policy, can be obtained from the Chief Financial Officer, City of Royse City, 305 North Arch Street, Royse City, Texas 75189.

j. Federal and State Grants

Grants and shared revenues are generally accounted for within the fund financed. Federal grants are from various federal agencies, including the Departments of Energy and Homeland Security, and are accounted for in the Governmental Funds.

k. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain prior year balances have been reclassified in order to be consistent with the current year's presentation.

l. Interfund Activity

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

m. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

n. Program Revenues

Certain revenues such as charges for services and impact fees are included in program revenues.

o. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

Expenditures exceeded appropriations in the fire department, municipal court, senior citizens center, environmental services and interest expenditures of the General Fund by \$123,957. Also, interest expenditures in the Debt Service Fund exceeded appropriations by \$974.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions (continued)

Action Taken

These overexpenditures were funded by greater than anticipated revenues and available fund balance in the General Fund.

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	Not applicable

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget appears on page 53 and other informational budgets are presented in the supplementary information section.

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the City Manager, shall be deemed to have been adopted by the City Council.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Manager and/or Director of Finance are authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

Budgets are legally adopted on a modified accrual basis of accounting. The majority of the City's Capital Projects are budgeted on an annual basis. For budgeted capital projects not expended during the fiscal year, the City will roll those balances into the following year's fiscal budget.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. At year end, encumbrances are canceled or reappropriated as part of the following year budget.

4. Excess of Expenditures over Appropriations

During the current year the City reported two funds whose expenditures were in excess of the appropriations. These amounts are indicated above.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

C. Deposits and Investments

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

Cash Deposits

At September 30, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,380,664 and the bank balance was \$5,727,527. The City's cash deposits at September 30, 2011 and during the year ended September 30, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Cash and investments as of September 30, 2011 consist of and are classified in the financial statements as follows:

Statement of net assets:

Primary Government	
Cash and Cash Equivalents	\$ 1,150,495
Restricted cash and cash equivalents	4,230,168
Total cash and cash equivalents	<u>\$ 5,380,663</u>
Cash on hand	\$ 450
Savings and checking accounts	616,357
Investment Pools	4,763,856
Total cash and cash equivalents	<u>\$ 5,380,663</u>

Investments

The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Currently all of the City's investments are with LOGIC Investments.

LOGIC is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. Together, these organizations bring to the LOGIC program the powerful partnership of two leaders in financial services with a proven track record in local government investment pool management. LOGIC is a local government investment cooperative created under the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The fund is rated AAAM by Standard & Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Average Maturity</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
LOGIC	\$ 4,763,856	49	N/A	AAA-m
	<u>\$ 4,763,856</u>			

As of September 30, 2011 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

C. Deposits and Investments (continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

Concentration of Credit Risk

With the exception of U.S. Treasury securities, certificates of deposit and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

As of September 30, 2011, the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

D. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Water and Sewer	Total
Receivables:				
Taxes	\$ 216,842	\$ 98,448	\$ -	\$ 315,290
Fees and Charges	27,876	-	859,254	887,130
Gross Receivables	244,718	98,448	859,254	1,202,420
Less: allowance for uncollectibles	(1,070)	(1,925)	(192,583)	(195,578)
Net Total Receivables	<u>\$ 243,648</u>	<u>\$ 96,523</u>	<u>\$ 666,671</u>	<u>\$ 1,006,842</u>

The Proprietary Fund accounts receivable includes unbilled charges for services of \$166,997 rendered as of fiscal year end.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

E. Capital Assets

Capital asset activity for the period ended September 30, 2011 was as follows:

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 904,165	\$ -	\$ -	\$ -	\$ 904,165
Total capital assets, not being depreciated:	904,165	-	-	-	904,165
Capital assets, being depreciated:					
Buildings and Improvements	9,921,036	-	185,636	-	10,106,672
Machinery & Equipment	676,799	-	-	-	676,799
Vehicles	1,719,082	-	-	-	1,719,082
Total capital assets being depreciated:	12,316,917	-	185,636	-	12,502,553
Total Fixed Assets	13,221,082	-	185,636	-	13,406,718
Less accumulated depreciation for:					
Buildings and Improvements	(618,970)	-	(201,340)	-	(820,310)
Machinery & Equipment	(422,365)	-	(76,148)	-	(498,513)
Vehicles	(1,020,552)	-	(103,855)	-	(1,124,407)
Total accumulated depreciation	(2,061,887)	-	(381,343)	-	(2,443,230)
Total capital assets, being depreciated, net	10,255,030	-	(195,707)	-	10,059,323
Governmental activities capital assets, net	\$ 11,159,195	\$ -	\$ (195,707)	\$ -	\$ 10,963,488
	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Business-type Funds:					
Capital assets, not being depreciated					
Land	\$ 216,827	\$ -	\$ -	\$ -	\$ 216,827
Construction-In-Progress	273,529	(112,000)	3,440,518	-	3,602,047
Intangible assets	200,500	-	-	-	200,500
Total capital assets, not being depreciated:	690,856	(112,000)	3,440,518	-	4,019,374
Capital assets, being depreciated:					
Water & Sewer System	11,270,111	112,000	108,665	-	11,490,776
Buildings and Improvements	39,551	-	-	-	39,551
Machinery & Equipment	180,173	-	-	-	180,173
Office Furniture and equipment	42,908	-	-	-	42,908
Vehicles	261,364	-	-	-	261,364
Total capital assets being depreciated:	11,794,107	112,000	108,665	-	12,014,772
Total Fixed Assets	12,484,963	-	3,549,183	-	16,034,146
Less accumulated depreciation for:					
Water & Sewer System	(1,749,425)	-	(287,260)	-	(2,036,685)
Buildings and Improvements	(29,558)	-	(1,067)	-	(30,625)
Machinery & Equipment	(154,766)	-	(7,436)	-	(162,202)
Office Furniture & Equipment	(39,594)	-	(1,859)	-	(41,453)
Vehicles	(186,366)	-	(32,974)	-	(219,340)
Total accumulated depreciation:	(2,159,709)	-	(330,596)	-	(2,490,305)
Total capital assets, being depreciated, net	9,634,398	112,000	(221,931)	-	9,524,467
Business-type activities capital assets, net	\$ 10,325,254	\$ -	\$ 3,218,587	\$ -	\$ 13,543,841

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

E. Capital Assets (continued)

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

Governmental activities:	
Administration	\$ 90,137
Fire Department	38,075
Police Department	46,491
Streets	149,807
Municipal Court	4,003
Community Services	12,597
Parks & Recreation	27,765
Library	12,468
Total depreciation expense - governmental activities	<u>\$ 381,343</u>
Business-type activities:	
Water and Sewer	\$ 330,596
Total depreciation expense - business-type activities	<u>\$ 330,596</u>

F. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Tax revenues which are reported as deferred revenue in the governmental funds are recorded as revenue in the government-wide financial statements. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	General	Debt Service	
	Fund	Fund	Total
Tax Revenue	<u>\$ 16,989</u>	<u>\$ 104,465</u>	<u>\$ 121,454</u>

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2011, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds & Certificates of Obligation	\$ 9,534,958	\$ 535,000	\$ (513,514)	\$ 9,556,444	\$ 535,988
Less deferred amounts:					
For issuance discounts	(93,385)	-	5,837	(87,548)	-
For issuance premiums	9,130	-	(2,282)	6,848	-
Total bonds payable	<u>9,450,703</u>	<u>535,000</u>	<u>(509,959)</u>	<u>9,475,744</u>	<u>535,988</u>
Capital Leases	145,055	-	(67,683)	77,372	71,092
Compensated Absences	62,967	-	-	62,967	6,297
Notes Payable	120,000	-	(24,000)	96,000	24,000
Governmental activity Long-term liabilities	<u>\$ 9,778,725</u>	<u>\$ 535,000</u>	<u>\$ (601,642)</u>	<u>\$ 9,712,083</u>	<u>\$ 637,377</u>

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

G. Long-Term Obligations (continued)

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable:					
General Obligation Bonds & Certificates of Obligation	\$ 12,811,042	\$ -	\$ (227,259)	\$ 12,583,783	\$ 316,012
Less deferred amounts:					
For issuance discounts	(97,363)	-	6,369	(90,994)	-
For issuance premiums	7,373	-	(1,138)	6,235	-
On refunding	(26,983)	-	3,793	(23,190)	-
Total Bonds Payable	12,694,069	-	(218,235)	12,475,834	316,012
Capital Leases	42,811	-	(20,885)	21,926	21,926
Compensated Absences	5,660	-	-	5,660	566
Business-type activity Long-term liabilities	<u>\$ 12,742,540</u>	<u>\$ -</u>	<u>\$ (239,120)</u>	<u>\$ 12,503,420</u>	<u>\$ 338,504</u>

Changes in Governmental Bonded Debt by Series

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30,			Amounts Outstanding September 30, 2011	Due Within One Year
			2010	Increase	Retired		
GO Bonds, Series 1976	5.00%	\$ 150,000	\$ 41,000	\$ -	\$ (6,000)	\$ 35,000	\$ 7,000
GO Bonds, Series 2005	3.25-4.00%	1,149,476	468,958	-	(137,514)	331,444	133,988
CO, Series 2006	4.03%	1,875,000	1,725,000	-	(80,000)	1,645,000	80,000
CO, Series 2007A	4.25-4.75%	7,850,000	7,300,000	-	(290,000)	7,010,000	305,000
CO, Series 2011	2.10-3.25%	535,000	-	535,000	-	535,000	10,000
Total Bonds and CO's payable		<u>\$ 11,559,476</u>	<u>\$ 9,534,958</u>	<u>\$ 535,000</u>	<u>\$ (513,514)</u>	<u>\$ 9,556,444</u>	<u>\$ 535,988</u>

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	
2012	\$ 535,988	\$ 420,504	\$ 956,492
2013	498,098	398,193	896,291
2014	514,572	377,576	892,148
2015	500,786	351,312	852,098
2016	482,000	325,247	807,247
2017-2021	2,785,000	1,347,177	4,132,177
2022-2026	3,445,000	675,898	4,120,898
2027	795,000	57,988	852,988
Totals	<u>\$ 9,556,444</u>	<u>\$ 3,953,895</u>	<u>\$ 13,510,339</u>

\$150,000 1976 General Obligation Refunding Bond issued for the exclusive purpose of paying the City's obligations.

\$1,630,000 2005 General Obligation Refunding Bond were issued for the purpose of providing funds to refund all of the issuer's outstanding combination tax and revenue certificates of obligation, Series 1992 and 2000.

\$1,875,000 Certificate of Obligation, Series 2006 were issued for the purpose of paying obligations in connection with: (i) acquiring, renovating, improving and equipping a building located at 305 N. Arch Street, Royse City, Texas to be used as a City Hall, including related infrastructure and the acquisition of land and interests in land therefore; (ii) constructing, installing and equipping City park improvements; and (iii) legal, fiscal, design and engineering fees in connection with such projects (the "Projects").

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

G. Long-Term Obligations (continued)

\$7,850,000 Certificate of Obligation, Series 2007A, were issued for the purpose of paying obligations in connection with constructing and improving streets and roads including related drainage, sidewalks, signalization, landscaping, lighting and signage; (ii) acquiring, constructing and installing sanitary sewer additions, extensions and improvements; (iii) the acquisition of land and interests in land and properties for such projects; and (iv) paying legal, fiscal and engineering fees in connection with these projects.

Changes in Business-type Bonded Debt by Series

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding		Retired	Amounts Outstanding September 30, 2011	Due Within One Year
			September 30, 2010	Increase			
GO Bonds, Series 2005	3.25-4.00%	\$ 480,524	\$ 196,042	\$ -	\$ (57,259)	\$ 138,783	\$ 56,012
GO Bonds, Series 2010	2.00-3.75%	555,000	555,000	-	(15,000)	540,000	15,000
CO, Series 2005	3.25-4.50%	5,015,000	3,965,000	-	-	3,965,000	5,000
CO, Series 2007B	5.49-6.38%	4,695,000	4,405,000	-	(155,000)	4,250,000	165,000
CO, Series 2010	2.00-4.50%	3,690,000	3,690,000	-	-	3,690,000	75,000
Total Bonds and CO's payable		<u>\$ 14,435,524</u>	<u>\$ 12,811,042</u>	<u>\$ -</u>	<u>\$ (227,259)</u>	<u>\$ 12,583,783</u>	<u>\$ 316,012</u>

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	
2012	\$ 316,012	\$ 610,638	\$ 926,650
2013	374,129	597,071	971,200
2014	437,428	581,075	1,018,503
2015	506,214	562,030	1,068,244
2016	655,000	539,774	1,194,774
2017-2021	3,530,000	2,230,985	5,760,985
2022-2026	4,045,000	1,306,969	5,351,969
2027-2030	2,720,000	292,884	3,012,884
Totals	<u>\$ 12,583,783</u>	<u>\$ 6,721,426</u>	<u>\$ 19,305,209</u>

\$1,630,000 2005 General Obligation Refunding Bond were issued for the purpose of providing funds to refund all of the issuer's outstanding combination tax and revenue certificates of obligation, Series 1992 and 2000.

\$555,000 2010 General Obligation Refunding Bond were issued for the purpose of refunding certain outstanding obligations of the issuer (2005 CO).

\$5,015,000 Certificate of Obligation, Series 2005 were issued for the purpose of paying for improvements to the City's Waterworks System, and for paying legal, fiscal and professional fees in connection.

\$4,695,000 Certificate of Obligation, Series 2007B were issued for the purpose of paying obligations incurred in connection with (i) acquiring, constructing and installing waterworks additions, extensions and improvements; (ii) the acquisition of land and interests in land and properties for such projects; and (iii) paying for legal, fiscal and engineering fees in connection with these projects.

\$3,690,000 Certificate of Obligation, Series 2010 were issued for the purpose of paying obligations incurred in connection with (i) acquiring, constructing, installing and equipping additions, extensions and improvements to the City's waterworks and sewer system, including a water storage tank, and the acquisition of land and properties for such projects; and (ii) paying legal, fiscal and engineering fees in connection with these projects.

Compensated Absences

Compensated absences represent the estimated liability for employees' accrued vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is typically paid from the General Fund or Proprietary Fund, based on the assignment of an employee at date of termination.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

G. Long-Term Obligations (continued)

Capital Leases

The City has the following lease agreements:

\$790,000 Equipment Lease Purchase Agreement for financing the purchase of equipment dated November 17, 2005. It is payable in annual installments of \$182,243, including interest. The lease is secured by equipment and has a carrying value of \$75,982 at September 30, 2011.

\$51,017 Equipment Lease Purchase Agreement for financing the purchase of equipment dated February 21, 2007. It is payable in annual installments of \$11,855, including interest. The lease is secured by equipment and has a carrying value of \$11,268 at September 30, 2011.

\$27,198 Equipment Lease Purchase Agreement for financing the purchase of equipment dated December 9, 2008. It is payable in annual installments of \$6,804, including interest at a rate of 8.5%. The lease is secured by equipment and has a carrying value of \$12,051 at September 30, 2011.

Capital lease repayment requirements are as follows:

Year Ending September 30:	General Fund	Proprietary Fund	Total Requirements
2012	\$ 75,213	\$ 23,020	\$ 98,233
2013	6,813	-	6,813
Totals	82,026	23,020	105,046
Amounts Representing Interest	(4,654)	(1,094)	(5,748)
Present Value of Minimum Lease Payments	\$ 77,372	\$ 21,926	\$ 99,298

Notes Payable

The City incurred a note payable to Sanitation Solutions in the amount of \$120,000. The note calls for five annual payments of \$24,000. Payments began October 1, 2010.

Debt service requirements as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2012	\$ 20,703	\$ 3,297	\$ 24,000
2013	21,482	2,518	24,000
2014	22,291	1,709	24,000
2015	23,130	870	24,000
Totals	\$ 87,606	\$ 8,394	\$ 96,000

H. Bond Issuance Costs

The City incurred various bond issuance fees upon issuance of bonds. These fees are amortized over the life of the bonds. The following are schedules of these fees:

General Fund	Fees	Prior Years Amortization Expense	Current Year Amortization Expense	Balance
2011 C.O.	\$ 35,000	\$ -	\$ (1,750)	\$ 33,250
2006 C.O.	26,728	(5,429)	(1,420)	19,879
2007A C.O.	130,000	(19,882)	(6,883)	103,235
2005 G.O. Bond	56,583	(26,406)	(7,544)	22,633
Totals	\$ 248,311	\$ (51,717)	\$ (17,597)	\$ 178,997

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

H. Bond Issuance Costs (continued)

<u>Proprietary Fund</u>	<u>Fees</u>	<u>Prior Years Amortization Expense</u>	<u>Current Year Amortization Expense</u>	<u>Balance</u>
2005 GO Bond	\$ 18,852	\$ (11,998)	\$ (1,714)	\$ 5,140
2007B C.O.	90,000	(13,767)	(4,765)	71,468
2005 C.O.	190,297	(51,234)	(7,318)	131,745
2010 GO Refunding Bond	70,406	(7,823)	(8,800)	53,783
2010 CO	141,969	(7,098)	(7,471)	127,400
Totals	<u>\$ 511,524</u>	<u>\$ (91,920)</u>	<u>\$ (30,068)</u>	<u>\$ 389,536</u>

I. Restricted Assets

The balances of restricted asset accounts in the governmental funds are as follows:

<u>Purpose</u>	<u>Cash & Cash Equivalents</u>
Public Safety	\$ 49,498
Capital Projects	654,781
Debt Service Fund	608,320
	<u>\$ 1,312,599</u>

The balances of restricted asset accounts in the proprietary funds are as follows:

<u>Purpose</u>	<u>Cash & Cash Equivalents</u>
Capital Projects	2,009,750
Escrow Payable	276,673
Impact Fees	631,146
	<u>\$ 2,917,569</u>

J. Pension Plan

1. Plan Description

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

TMRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information (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, PO 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.

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

- Deposit Rate: 7%
- Matching Ratio (City to Employee): 2-1
- A member is vested after 5 yrs
- Members can retire at certain ages, based on the years of service with the City.
- The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

J. Pension Plan (continued)

2. 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 of that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the 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 at the basis of the rate and the calendar year when the rate goes into effect.

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

City of Royse City			
Schedule of Actuarial Liabilities and Funding Progress			
Actuarial Valuation Date	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$ 1,308,365	\$ 1,597,312	\$ 2,267,612
Actuarial Accrued Liability	1,963,264	2,396,021	3,276,858
Percentage Funded	66.6%	66.7%	69.2%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	654,899	798,709	1,009,246
Annual Covered Payroll	1,725,686	1,935,740	1,987,438
UAAL as a Percentage of Covered Payroll	38.0%	41.3%	50.8%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	Plus 155,910	180,873	196,043
Contributions Made	Less (155,910)	(180,873)	(196,043)
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Actuarial cost method	Projected	Projected	Projected
	Unit Credit	Unit Credit	Unit Credit
Amortization method	Level %	Level %	Level %
Asset Valuation method	Amortized	10yr Smoothed	10yr Smoothed
	Cost	Market	Market
Amortization period	24 yrs-closed	23.3 yrs-closed	22.6 yrs-closed
Actuarial assumptions:			
Investment rate of return	7.5%	7.5%	7%
Inflation rate	3.00%	3.00%	3.00%
Projected salary increase	Varies	Varies	Varies

3. Funding Status and Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring has occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS CAFR.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

J. Pension Plan

3. Funding Status and Funding Progress (continued)

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) (1) / (2) Funded Ratio	(4) (2) - (1) Unfunded AAL (UAAL)	(5) Covered Payroll	(6) (4) / (5) UAAL as a Percentage of Covered Payroll
12/31/10 ¹	\$ 1,784,467	\$ 2,731,230	65.3%	\$ 946,763	\$ 1,987,438	47.6%
12/31/10 ²	\$ 2,267,612	\$ 3,276,858	69.2%	\$ 1,009,246	\$ 1,987,438	50.8%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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

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

4. Group-term Life Insurance

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2011, 2010, and 2009 were \$3,786, \$3,685, and \$3,470, respectively, which equaled the required contributions each year.

L. Health Care Coverage

During the year ended September 30, 2011, employees of the City were covered by a health and vision insurance plan. The City contributed \$485.10 per month per employee for employee coverage for health insurance. The City contributed \$4.78 per month per employee (100% of the cost per employee) for vision insurance. Employees, at their option, authorized payroll withholdings for dental coverage. Health insurance is provided by Aetna and vision insurance is provided by Dearborn National.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

M. Insurance Coverage

Below is a schedule of insurance in force.

Company	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Automobile Coverage:						
TX Municipal League Joint Self Ins Fund	5142	Automotive	\$ 2,000,000 per occurrence	10/01/10 to 10/01/11	\$ 13,158	\$ 2,500
TX Municipal League Joint Self Ins Fund	5142	Automobile- Phys. Damage	Per Schedule & Endorsements	10/01/09 to 10/01/10	\$ 6,216	\$ 2,500
Liability Coverage:						
TX Municipal League Joint Self Ins Fund	5142	General	\$ 1,000,000 per occurrence	10/01/09 to 10/01/10	\$ 4,694	\$ 5,000
TX Municipal League Joint Self Ins Fund	5142	Law Enforcement	\$ 2,000,000 per claim	10/01/09 to 10/01/10	\$ 9,853	\$ 5,000
TX Municipal League Joint Self Ins Fund	5142	Errors & Omissions	\$ 2,000,000 per claim	10/01/09 to 10/01/10	\$ 8,179	\$ 5,000
Property Coverage:						
TX Municipal League Joint Self Ins Fund	5142	Real and Personal	\$ 5,921,221	10/01/09 to 10/01/10	\$ 6,472	\$ 2,500
TX Municipal League Joint Self Ins Fund	5142	Mobile Equipment	\$ 358,085	10/01/09 to 10/01/10	\$ 1,529	\$ 1,000
TX Municipal League Joint Self Ins Fund	5142	Boiler and Machinery	\$ 100,000 Per Accident	10/01/09 to 10/01/10	Included	\$ 2,500

N. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. The City has renewed all coverages and policies for fiscal year 2011-2012.

O. Litigation

The City is party to various legal proceedings arising in the ordinary course of its operations. Management, based on the Council's opinion, believes the City has adequate legal defenses and/or insurance coverage respecting each of these actions and does not believe that they will materially alter the City's financial position.

P. Additional Water and Sewer Information

The following information is included at the request of the Texas Water Development Board for the year under audit. Water Accountability Report:

Gallons Pumped	513,352,000
Gallons Billed	454,437,000

The City has a contract with North Texas Municipal Water District (NTMWD) to purchase substantially all of its water. Under the the contract, the City pays NTMWD a rate based on water usage. The rates charged are subject to minimum annual contract payments. Contract payments for water for the year ended September 30, 2011 were \$665,675.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Q. Interfund Transactions

<u>Funds</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Total</u>
General Fund	\$ 1,090,733	\$ (41,978)	\$ 1,048,755
Debt Service Fund	(854,712)	30,814	(823,898)
Other Governmental Funds	-	-	-
Water and Sewer Fund	(612,254)	387,397	(224,857)
Total Major Funds	<u>\$ (376,233)</u>	<u>\$ 376,233</u>	<u>\$ -</u>

Transfers are used to 1) transfer debt service payments and 2) fund general administrative operations.

R. Prior Period Adjustment

The City had a prior period adjustment in the Governmental Funds of \$66,181 to adjust court liabilities to actual. The City also had a prior period adjustment in the Water and Sewer Fund for \$107,968 to adjust capital assets to actual.

S. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

GASB Statement No. 59, *Financial Instruments Omnibus* ("GASB 59"), updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. GASB 59 will be implemented by the City in fiscal year 2012 and the impact has not yet been determined.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* ("GASB 60"), improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. GASB 60 does not apply to the City at this time.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* ("GASB 61"), modifies certain requirements for inclusion of component units in the financial reporting entity, amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. GASB 61 will be implemented by the City in fiscal year 2013 and the impact has not yet been determined.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30 1989, FASB and AICPA Pronouncements* ("GASB 62"), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. GASB 62 will be implemented by the City in fiscal year 2012 and the impact has not yet been determined.

T. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2011 up through March 19, 2012, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring disclosure.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

U. Royse City Economic Development Corporation

The EDC is financed with a voter approved 1/2 cent sales tax to aid, promote and further the economic development within the City. Under a contract between the EDC and the City, the City provides financial services for the EDC.

1. Deposits and Investments

Cash and investments as of September 30, 2011 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government	
Cash and Cash Equivalents	\$ 787,224
Total cash and cash equivalents	<u>\$ 787,224</u>
Savings and checking accounts	787,224
Total cash and cash equivalents	<u>\$ 787,224</u>

Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the EDC adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

Currently the EDC does not have any investments with LOGIC Investments or any other investments.

2. Receivables

Receivables as of year end for the EDC, including the applicable allowances for uncollectible accounts, are as follows:

	<u>EDC</u>
Receivables:	
Taxes	<u>\$ 55,194</u>
Gross Receivables	55,194
Less: allowance for uncollectible	-
Net Total Receivables	<u>\$ 55,194</u>



REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF ROYSE CITY, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property, including P&I	\$ 1,259,892	\$ 1,259,892	\$ 1,235,489	\$ (24,403)
Sales	901,500	901,500	1,000,337	98,837
Franchise	377,700	377,700	356,692	(21,008)
Fines and fees	665,200	665,200	611,493	(53,707)
Licenses and permits	28,000	28,000	18,894	(9,106)
Refuse collection fees	710,000	710,000	727,496	17,496
Donations	4,500	4,500	1,196	(3,304)
Investment income	7,500	7,500	1,550	(5,950)
Miscellaneous	25,000	25,000	170,150	145,150
Total Revenues	<u>3,979,292</u>	<u>3,979,292</u>	<u>4,123,297</u>	<u>144,005</u>
EXPENDITURES				
Current:				
Administrative	2,107,580	2,107,580	1,835,357	272,223
Police	1,369,939	1,369,939	1,362,054	7,885
Fire department	218,464	218,464	321,370	(102,906)
Streets	219,170	219,170	174,751	44,419
Municipal court	312,050	312,050	316,446	(4,396)
Community services	264,050	264,050	167,064	96,986
Parks	240,480	240,480	232,412	8,068
Library	83,950	83,950	79,828	4,122
Museum	15,400	15,400	12,946	2,454
Senior citizens center	77,520	77,520	80,404	(2,884)
Main street	75,700	75,700	60,101	15,599
Environmental services	98,800	98,800	105,041	(6,241)
Debt Service:				
Principal retirement	111,877	111,877	91,683	20,194
Interest	-	-	7,530	(7,530)
Total Expenditures	<u>5,194,980</u>	<u>5,194,980</u>	<u>4,846,987</u>	<u>347,993</u>
Excess of revenues over (under) expenditures	<u>(1,215,688)</u>	<u>(1,215,688)</u>	<u>(723,690)</u>	<u>491,998</u>
Other Financing Sources (uses)				
Transfers	1,090,733	1,057,598	1,048,755	(8,843)
Insurance refund	7,955	-	7,955	7,955
Grant revenue	117,000	117,000	83,627	(33,373)
Total other financing sources	<u>1,215,688</u>	<u>1,174,598</u>	<u>1,140,337</u>	<u>(34,261)</u>
Net Change in Fund Balances	-	(41,090)	416,647	457,737
Fund Balances/Equity, October 1	(754,746)	(754,746)	(754,746)	
Prior period adjustments	-	-	66,181	
Fund Balances/Equity, September 30	<u>\$ (754,746)</u>	<u>\$ (795,836)</u>	<u>\$ (271,918)</u>	

CITY OF ROYSE CITY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

TMRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST FOUR FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) -Unit Credit	(3) Unfunded Actuarial Accrued Liability UAAL (2)-(1)	(4) Funded Percent (1)/(2)	(5) Covered Payroll	(6) UAAL as Percent of Covered Payroll (3)/(5)	(7) Annual Required Contributions	(8) Actual Contributions	Percent Contributed (8)/(7)
2008	12/31/2007	\$ 1,071,878	\$ 1,834,600	\$ 762,722	58.4%	\$ 2,333,042	32.7%	\$ 138,398	\$ 138,398	100%
2009	12/31/2008	\$ 1,308,365	\$ 1,963,264	\$ 654,899	66.6%	\$ 1,725,686	38.0%	\$ 155,910	\$ 155,910	100%
2010	12/31/2009	\$ 1,597,312	\$ 2,396,021	\$ 798,709	66.7%	\$ 1,935,740	41.3%	\$ 180,873	\$ 180,873	100%
2011	12/31/2010	\$ 2,267,612	\$ 3,276,858	\$ 1,009,246	69.2%	\$ 1,987,438	50.8%	\$ 196,043	\$ 196,043	100%

SUPPLEMENTARY INFORMATION



**CITY OF ROYSE CITY, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 1,797,902	\$ 1,797,902	\$ 1,872,233	\$ 74,331
Investment Income	-	-	1,742	1,742
Total Revenues	<u>1,797,902</u>	<u>1,797,902</u>	<u>1,873,975</u>	<u>76,073</u>
EXPENDITURES				
Debt Service:				
Principal Retirement	513,514	513,514	513,514	-
Interest and Fiscal Agent Fees	429,676	429,676	430,650	(974)
Total debt service	<u>943,190</u>	<u>943,190</u>	<u>944,164</u>	<u>(974)</u>
Total Expenditures	<u>943,190</u>	<u>943,190</u>	<u>944,164</u>	<u>(974)</u>
Excess of revenues over expenditures	<u>854,712</u>	<u>854,712</u>	<u>929,811</u>	<u>75,099</u>
Other Financing Sources (uses)				
Transfers	<u>(854,712)</u>	<u>(854,712)</u>	<u>(823,898)</u>	<u>30,814</u>
Total Other Financing Sources and uses	<u>(854,712)</u>	<u>(854,712)</u>	<u>(823,898)</u>	<u>30,814</u>
Net Change in Fund Balances	-	-	105,913	105,913
Fund Balances/Equity, October 1	<u>793,934</u>	<u>793,934</u>	<u>793,934</u>	
Fund Balances/Equity, September 30	<u>\$ 793,934</u>	<u>\$ 793,934</u>	<u>\$ 899,847</u>	

CITY OF ROYSE CITY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	Hotel/ Motel	Court Technology	Court Security	Citizen Police Academy	Police Forfeiture	State Police	TXPW Grant	Conservation Grant
ASSETS								
Cash and cash equivalents	\$ -	\$ 20,455	\$ 16,922	\$ -	\$ -	\$ -	\$ (1,597)	\$ (7,598)
Cash and cash equivalents - Restricted	106,387	-	-	-	23,995	25,503	-	-
Total Assets	<u>106,387</u>	<u>20,455</u>	<u>16,922</u>	<u>-</u>	<u>23,995</u>	<u>25,503</u>	<u>(1,597)</u>	<u>(7,598)</u>
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances								
Restricted for:								
Municipal court use	-	20,455	16,922	-	-	-	-	-
Police	-	-	-	-	23,995	25,503	-	-
Hotel/Motel Use	106,387	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	(1,597)	(7,598)
Total Fund Balances	<u>106,387</u>	<u>20,455</u>	<u>16,922</u>	<u>-</u>	<u>23,995</u>	<u>25,503</u>	<u>(1,597)</u>	<u>(7,598)</u>
Total Liabilities and Fund Balances	<u>\$ 106,387</u>	<u>\$ 20,455</u>	<u>\$ 16,922</u>	<u>\$ -</u>	<u>\$ 23,995</u>	<u>\$ 25,503</u>	<u>\$ (1,597)</u>	<u>\$ (7,598)</u>

CITY OF ROYSE CITY, TEXAS
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	Library Grant	Library	Senior Center	Main Street	Police	Fire	Splash Park	Animal	Total
ASSETS									
Cash and cash equivalents	\$ 3,279	\$ 400	\$ 1,250	\$ 4,360	\$ 8,296	\$ 41,221	\$ -	\$ 275	\$ 87,263
Cash and cash equivalents - Restricted	-	-	-	-	-	-	-	-	155,885
Total Assets	3,279	400	1,250	4,360	8,296	41,221	-	275	243,148
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	34,790	-	-	34,790
Total Liabilities	-	-	-	-	-	34,790	-	-	34,790
Fund Balances									
Restricted for:									
Municipal court use	-	-	-	-	-	-	-	-	37,377
Police	-	-	-	-	-	-	-	-	49,498
Hotel/Motel Use	-	-	-	-	-	-	-	-	106,387
Assigned	3,279	400	1,250	4,360	8,296	6,431	-	275	15,096
Total Fund Balances	3,279	400	1,250	4,360	8,296	6,431	-	275	208,358
Total Liabilities and Fund Balances	\$ 3,279	\$ 400	\$ 1,250	\$ 4,360	\$ 8,296	\$ 41,221	\$ -	\$ 275	\$ 243,148

**CITY OF ROYSE CITY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Hotel/ Motel	Court Technology	Court Security	Citizen Police Academy	Police Forfeiture	State Police	TXPW Grant	Conservation Grant
REVENUES								
Taxes:								
Hotel/Motel	\$ 61,539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and Fees	-	9,545	7,095	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	112	47	-	-
Miscellaneous	-	-	-	-	19,189	12,562	-	-
Total Revenues	61,539	9,545	7,095	-	19,301	12,609	-	-
EXPENDITURES								
Current:								
Police	-	-	-	-	37,559	8,054	-	-
Fire Department	-	-	-	-	-	-	-	-
Municipal Court	-	2,367	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-
Main Street	-	-	-	-	-	-	-	-
Community Development	13,596	-	-	-	-	-	-	-
Miscellaneous	176	-	-	-	-	16	-	1,153
Capital Outlays	-	-	-	-	-	-	162,196	-
Total Expenditures	13,772	2,367	-	-	37,559	8,070	162,196	1,153
Excess (deficiency) of revenues over (under) expenditures	47,767	7,178	7,095	-	(18,258)	4,539	(162,196)	(1,153)
Other Revenues and Financing Sources (uses)								
Transfers	-	-	-	-	-	-	-	-
Intragovernmental Revenue	-	-	-	-	-	-	32,439	-
Grant Revenue	-	-	-	-	-	-	128,160	33,186
Sources (uses)	-	-	-	-	-	-	160,599	33,186
Net Change in Fund Balances	47,767	7,178	7,095	-	(18,258)	4,539	(1,597)	32,033
Fund Balances, October 1	58,620	13,277	9,827	-	42,253	20,964	-	(39,631)
Fund Balances, September 30	\$ 106,387	\$ 20,455	\$ 16,922	\$ -	\$ 23,995	\$ 25,503	\$ (1,597)	\$ (7,598)

**CITY OF ROYSE CITY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Library Grant	Library	Senior Center	Main Street	Police	Fire	Splash Park	Animal	Total
REVENUES									
Taxes:									
Hotel/Motel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,539
Fines and Fees	-	-	-	-	-	-	-	-	16,640
Donations	-	-	-	7,989	5,876	2,874	-	-	16,739
Investment Income	-	-	-	-	-	-	-	-	159
Miscellaneous	-	-	-	-	-	-	-	-	31,751
Total Revenues	-	-	-	7,989	5,876	2,874	-	-	126,828
EXPENDITURES									
Current:									
Police	-	-	-	-	175	-	-	-	45,788
Fire Department	-	-	-	-	-	34,790	-	-	34,790
Municipal Court	-	-	-	-	-	-	-	-	2,367
Library	6,721	-	-	-	-	-	-	-	6,721
Main Street	-	-	-	7,655	-	-	-	-	7,655
Community Development	-	-	-	-	-	-	-	-	13,596
Miscellaneous	-	-	-	-	-	-	-	-	1,345
Capital Outlays	-	-	-	-	-	-	17,872	-	180,068
Total Expenditures	6,721	-	-	7,655	175	34,790	17,872	-	292,330
Excess (deficiency) of revenues over (under) expenditures	(6,721)	-	-	334	5,701	(31,916)	(17,872)	-	(165,502)
Other Revenues and Financing Sources (uses)									
Transfers	-	-	-	-	-	-	-	-	-
Intragovernmental Revenue	-	-	-	-	-	-	-	-	32,439
Grant Revenue	-	-	-	-	-	34,790	17,872	-	214,008
Sources (uses)	-	-	-	-	-	34,790	17,872	-	246,447
Net Change in Fund Balances	(6,721)	-	-	334	5,701	2,874	-	-	80,945
Fund Balances, October 1	10,000	400	1,250	4,026	2,595	3,557	-	275	127,413
Fund Balances, September 30	\$ 3,279	\$ 400	\$ 1,250	\$ 4,360	\$ 8,296	\$ 6,431	\$ -	\$ 275	\$ 208,358

**CITY OF ROYSE CITY, TEXAS
BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT
SEPTEMBER 30, 2011**

	<u>EDC</u>
ASSETS	
Cash and Cash Equivalents	\$ 787,224
Receivables, net	55,194
Total Assets	<u>842,418</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable - City	34,224
Total Liabilities	<u>34,224</u>
Fund Balance	
Reserved for:	
Community Development	808,194
Total Fund Balance	<u>808,194</u>
 Total Liabilities and Fund Balance	 <u>\$ 842,418</u>

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
DISCRETELY PRESENTED COMPONENT UNIT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>EDC</u>
REVENUES	
Taxes:	
Sales	\$ 332,134
Investment Income	421
Miscellaneous	1,451
Total Revenues	<u>334,006</u>
EXPENDITURES	
Current:	
Administrative	120,609
Community Development	167,224
Total Expenditures	<u>287,833</u>
Excess (deficiency) of revenues over (under) expenditures	46,173
Other Revenues and Financing Sources (uses)	
Intragovernmental expense	(32,439)
Total other financing sources (uses)	<u>(32,439)</u>
Net Change in Fund Balance	13,734
Fund Balance, October 1	794,460
Fund Balance, September 30	<u>\$ 808,194</u>

**CITY OF ROYSE CITY, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT CORPORATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 227,577	\$ 227,577	\$ 332,134	\$ 104,557
Investment Income	500	500	421	(79)
Miscellaneous			1,451	1,451
Total Revenues	<u>228,077</u>	<u>228,077</u>	<u>334,006</u>	<u>104,478</u>
EXPENDITURES				
Current:				
Administrative	139,500	139,500	120,609	18,891
Community Development	330,900	330,900	167,224	163,676
Total Expenditures	<u>470,400</u>	<u>470,400</u>	<u>287,833</u>	<u>182,567</u>
Excess (deficit) of revenues over (under) expenditures	<u>(242,323)</u>	<u>(242,323)</u>	<u>46,173</u>	<u>(78,089)</u>
Other Revenues and Financing Sources (uses)				
Intragovernmental expense	-	-	(32,439)	32,439
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(32,439)</u>	<u>32,439</u>
Net Change in Fund Balances	(242,323)	(242,323)	13,734	(78,089)
Fund Balances/Equity, October 1	<u>794,460</u>	<u>794,460</u>	<u>794,460</u>	
Fund Balances/Equity, September 30	<u>\$ 552,137</u>	<u>\$ 552,137</u>	<u>\$ 808,194</u>	