



City Of Royse City, Texas

Annual Financial Report

Fiscal Year Ended September 30, 2012

ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2012

City of Royse City, Texas

City Manager

Carl Alsabrook

Chief Financial Officer

Joe Stegall



CITY OF ROYSE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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FINANCIAL SECTION





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April 12, 2013

Independent Auditor's Report on Financial Statements

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

Mayor and 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, 2012, 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 and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 as of September 30, 2012, 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 April 12, 2013, on our consideration of the City's 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 to 15, the budgetary comparison information on page 53, and the Schedule of Pension Trust – TMRS Funding Progress and Contributions on page 54, 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. The budgetary comparison information is the responsibility of management and was derived from and relates 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 budgetary comparison information is fairly stated in all material respects in relation to the financial statements as a whole. We do not express an opinion or provide any assurance on the Management's Discussion and Analysis or the Schedule of Pension Trust – TMRS Funding Progress and Contributions 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's financial statements as a whole. The combining and individual non-major fund financial statements and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,



Conway Company CPAs, P.C.

CITY OF ROYSE CITY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2012

As management of the City of Royse City ("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, 2012. 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 \$8,472,921 (net assets). Of this amount, \$726,261 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. A total of \$4,375,444, or 52%, is invested in capital assets, net of related debt, which does not directly generate revenue and are not available to generate liquid capital. Net assets restricted for specific purposes total \$3,371,216, or 40%, of total net assets.
- The government's total net assets increased by \$972,036, excluding prior period adjustments, due to an increase in both the governmental activities' net assets and the business-type activities' net assets. An increase in governmental activities charges for services and overall business-type activities revenues exceeding business-type activities expenses by 25% both account for this overall increase.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending balances of \$1,510,395, an increase of \$107,394, excluding prior period adjustments, in comparison with the prior year. The increase in combined ending fund balances is attributable to an increase in total revenues of 2%, or \$137,007. Approximately 16% of total fund balance, or \$244,629, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of \$246,253 was 5% of total General Fund expenditures for the fiscal year. The increase in the total General Fund fund balance was largely due to increased revenues.
- The City's total long-term debt decreased by \$(869,097), or 4%, during the current fiscal year, mainly due to the principal payments during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 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, 2012**

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** (beginning on page 29). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 51-52) is provided to show details about the City's budgetary schedule for the General Fund and the funding progress and contributions for the 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.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component unit. 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 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.

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

The City 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 schedule 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 Schedule for the General Fund uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule 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 51.

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.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2012**

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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's General Fund budgetary comparison information and progress in funding its obligation to provide pension benefits to its employees. This information begins on page 51 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2012 continue the implementation of a new standard of financial reporting for the 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. 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's financial reports as well as those of many other units of government. While the 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, 2012**

The City of Royse City Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,833,033	\$ 1,883,715	\$ 4,541,660	\$ 5,163,820	\$ 6,374,693	\$ 7,047,535
Capital assets	10,672,990	10,963,488	14,352,468	13,543,841	25,025,458	24,507,329
Total assets	12,506,023	12,847,203	18,894,128	18,707,661	31,400,151	31,554,864
Current liabilities	260,273	252,290	1,302,269	962,477	1,562,542	1,214,767
Long-term liabilities	9,189,570	9,712,083	12,175,118	12,503,420	21,364,688	22,215,503
Total liabilities	9,449,843	9,964,373	13,477,387	13,465,897	22,927,230	23,430,270
Net assets:						
Invested in capital assets, net of related debt	1,583,387	1,401,653	2,792,057	3,077,620	4,375,444	4,479,273
Restricted	1,225,871	1,641,503	2,145,345	2,917,569	3,371,216	4,559,072
Unrestricted	246,922	(160,326)	479,339	(753,425)	726,261	(913,751)
Total net assets	\$ 3,056,180	\$ 2,882,830	\$ 5,416,741	\$ 5,241,764	\$ 8,472,921	\$ 8,124,594

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 \$8,472,921 as of September 30, 2012.

Invested in capital assets, net of related debt

The City's net assets increased by \$972,036, excluding prior period adjustments, for the fiscal year ended September 30, 2012. However, a large portion, 52%, 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.

Restricted net assets:

Restricted net assets represent 40% of total net assets that are subject to external restrictions on how they may be used, or restrictions by enabling legislation. The restricted net assets are comprised of (a) \$913,963 for debt service, (b) \$632,626 for impact fee use, (c) \$663,081 for capital projects, (d) \$903,672 for escrow payable, and (e) \$257,874 for other state imposed restrictions.

Unrestricted net assets:

Unrestricted net assets in the amount of \$726,261 are available to fund the City programs to citizens and creditors.

CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012

The City of Royse City Changes in Net Assets

	Governmental Activities		Business Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,616,796	\$ 1,432,852	\$ 4,198,626	\$ 4,357,385	\$ 5,815,422	\$ 5,790,237
Operating Grants and Contributions	113,114	151,603	-	-	113,114	151,603
Capital Grants and Contributions	-	146,032	-	-	-	146,032
General Revenues:						
Property Taxes	3,161,579	3,184,466	-	-	3,161,579	3,184,466
Sales Taxes	1,096,970	1,000,337	-	-	1,096,970	1,000,337
Franchise Taxes	411,909	356,692	-	-	411,909	356,692
Hotel/Motel Taxes	64,036	61,539	-	-	64,036	61,539
Investment Income	6,099	3,767	5,780	8,264	11,879	12,031
Other	81,032	211,265	65,310	10,027	146,342	221,292
Total Revenues	6,551,535	6,548,553	4,269,716	4,375,676	10,821,251	10,924,229
Expenses:						
Program Expenses						
General Government	2,659,282	2,105,538	-	-	2,659,282	2,105,538
Fire	266,694	394,234	-	-	266,694	394,234
Police	1,563,495	1,454,333	-	-	1,563,495	1,454,333
Streets	345,808	324,558	-	-	345,808	324,558
Municipal Court	357,937	322,816	-	-	357,937	322,816
Community Services	237,973	179,661	-	-	237,973	179,661
Parks	392,248	260,177	-	-	392,248	260,177
Library	92,047	99,018	-	-	92,047	99,018
Community Development	8,193	13,596	-	-	8,193	13,596
Environmental Services	102,989	105,041	-	-	102,989	105,041
Interest on Long-Term Debt	416,203	441,734	-	-	416,203	441,734
Water and Sewer	-	-	3,406,346	2,723,371	3,406,346	2,723,371
Total Expenses	6,442,869	5,700,706	3,406,346	2,723,371	9,849,215	8,424,077
Change in Net Assets before Other Revenues and Financing Sources	108,666	847,847	863,370	1,652,305	972,036	2,500,152
Other Revenues:						
Transfers	225,361	224,857	(225,361)	(224,857)	-	-
Total Other Revenues	225,361	224,857	(225,361)	(224,857)	-	-
Total Change in Net Assets	334,027	1,072,704	638,009	1,427,448	972,036	2,500,152
Net Assets - October 1	2,882,830	1,743,945	5,241,764	3,706,348	8,124,594	5,450,293
Prior Period Adjustments	(160,677)	66,181	(463,032)	107,968	(623,709)	174,149
Net Assets - September 30	\$ 3,056,180	\$ 2,882,830	\$ 5,416,741	\$ 5,241,764	\$ 8,472,921	\$ 8,124,594

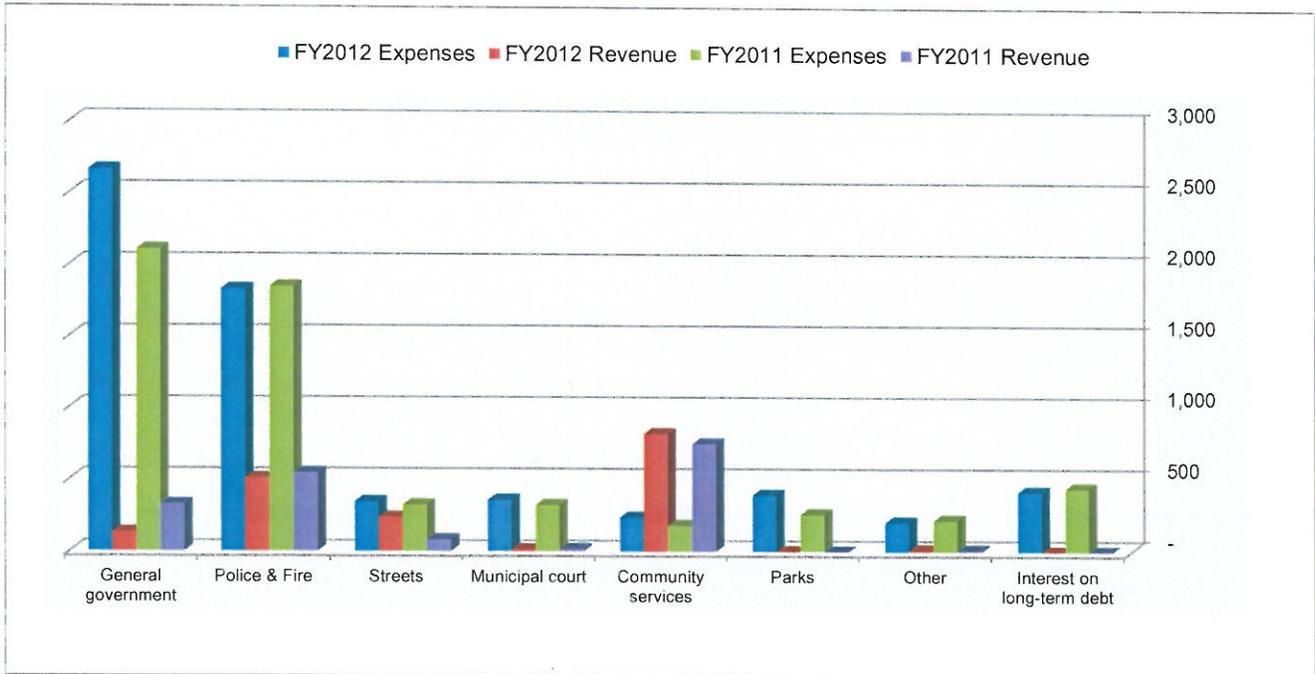
**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2012**

Governmental-type activities - Governmental-type activities increased the City's net assets by \$334,027, excluding prior period adjustments. One key element of this increase is as follows:

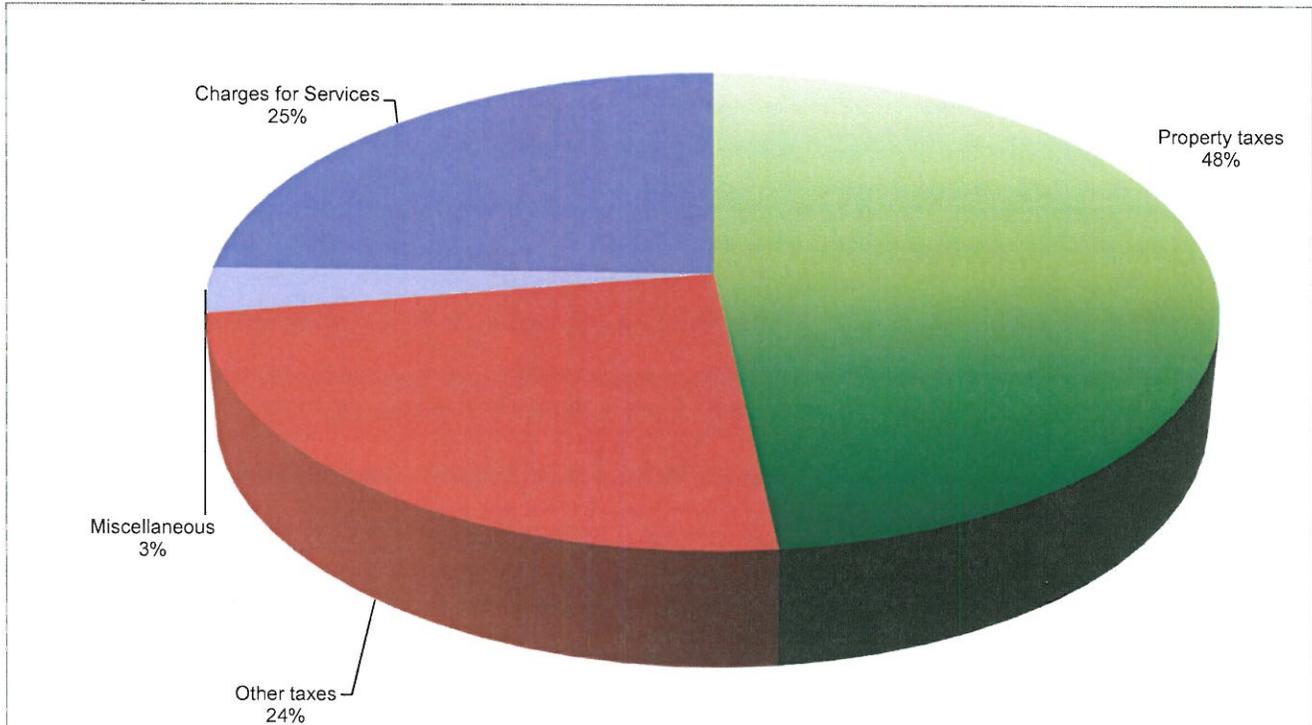
Charges for services increased by \$183,944, or 13%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



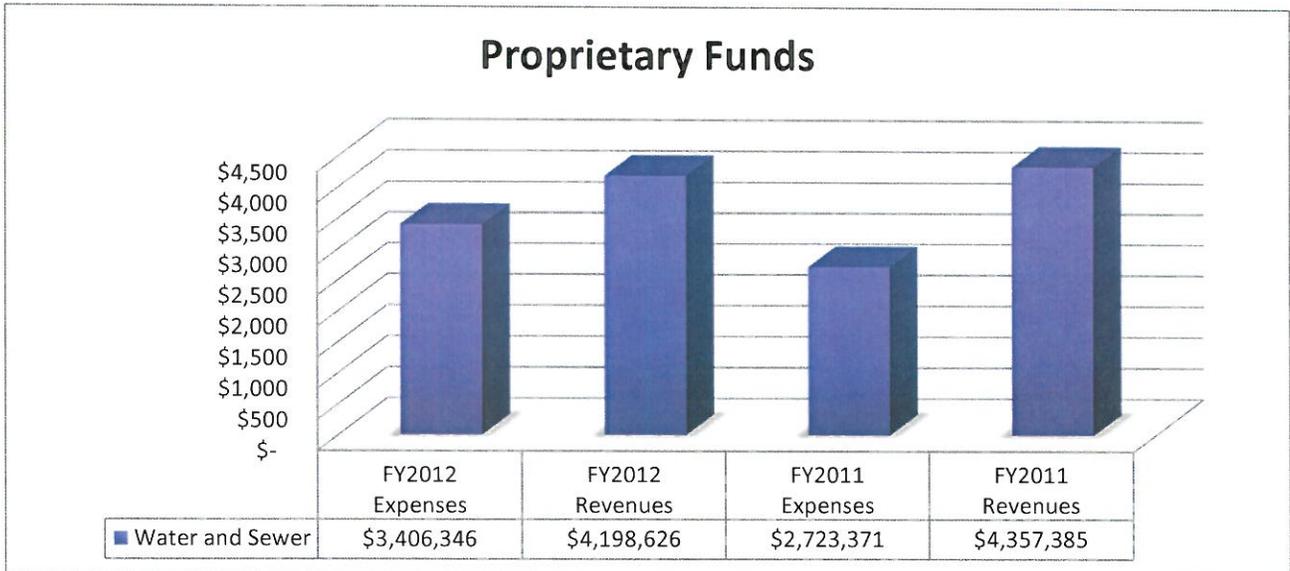
**CITY OF ROYSE CITY, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2012**

Business-type Activities - Business-type activities increased the City's net assets by \$638,009, excluding prior period adjustments. A key element for this increase is as follows:

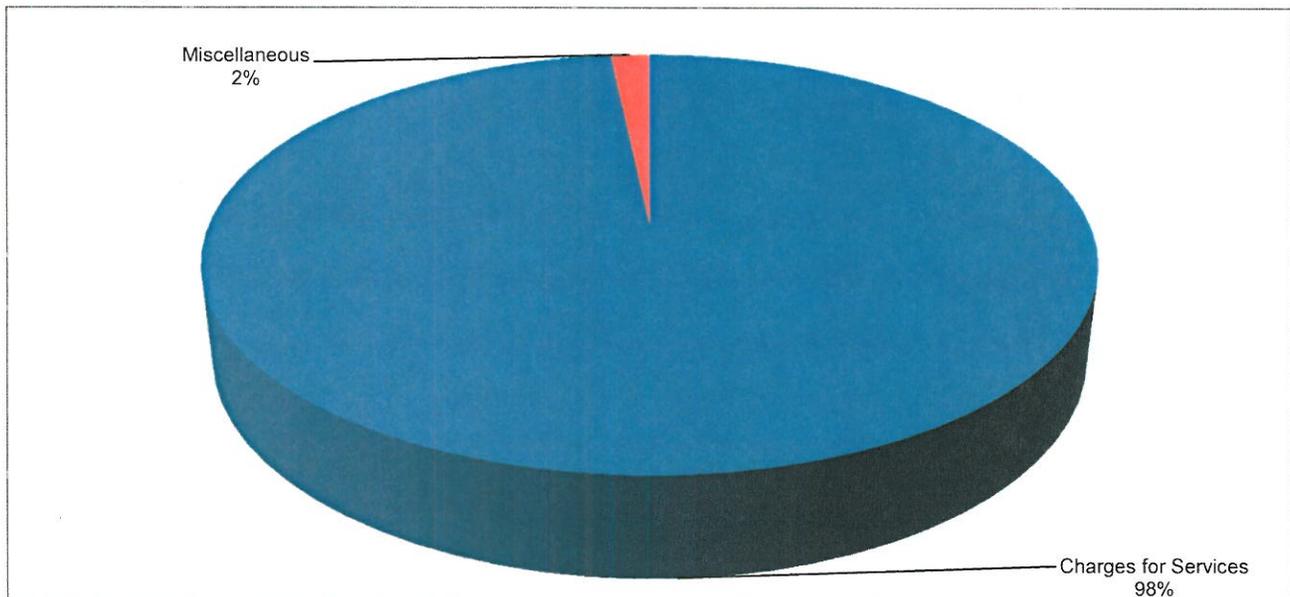
Total revenues exceeded total expenses by \$863,370, or 25%, primarily due to the increase in water and sewer rates effective in November 2011.

Expenditures and Program Revenues - Business-type Activities

(amounts expressed in thousands)



Revenues by Source - Business-type Activities



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 spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year.

At September 30, 2012, the City's governmental funds reported total fund balances of \$1,510,395, an 8% increase in comparison with the prior year's total ending fund balances. The components of total fund balance are as follows:

- Restricted fund balance, \$1,225,871, consists of amounts restricted by external laws or contractual obligations as follows: \$913,963 for debt service, \$54,034 for capital projects, and \$257,874 for other third party restrictions.
- Assigned fund balance of \$39,895, represents residual fund balance intended for use by special revenue funds, including library, senior center, animal control and other purposes.
- Unassigned fund balance, \$244,629, represents residual available fund balances that have not been restricted, committed, or assigned by management, City Council, or otherwise.

General Fund - The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$246,253, compared to (\$271,918) at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 5% of total General Fund expenditures.

Debt Service Fund - The Debt Service Fund is a major operating fund of the City. At the end of the current fiscal year, restricted fund balance was \$913,963, compared to \$899,847 at the end of the prior fiscal year. These funds are restricted for the payment of debt service expenditures.

2007 Capital Projects Fund - The 2007 Capital Projects Fund is a major operating fund of the City. At the end of the current fiscal year, restricted fund balance was \$54,034, compared to \$548,394 at the end of the prior fiscal year. These funds are restricted for the payment of capital expenditures and the decrease in total fund balance relates to the completion of several projects earmarked for use of these funds.

Proprietary Funds

The City's proprietary fund statements provide essentially 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 \$479,339, a 164% increase from the prior year.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, totals \$25,025,458 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery & equipment, vehicles and construction in progress.

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

- Completion of the Greenville Water Line
- Completion of the Sabine Trunk Line

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

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 925,169	\$ 904,165	\$ 216,827	\$ 216,827	\$ 1,141,996	\$ 1,120,992
Construction in Progress	-	-	2,664,068	3,602,047	2,664,068	3,602,047
Certificate of Convenience	-	-	200,500	200,500	200,500	200,500
Infrastructure	-	-	11,216,101	9,454,091	11,216,101	9,454,091
Buildings & Improvements	9,104,476	9,286,362	7,860	8,926	9,112,336	9,295,288
Machinery & Equipment	119,691	178,286	22,993	19,426	142,684	197,712
Vehicles	523,654	594,675	24,119	42,024	547,773	636,699
Total	\$ 10,672,990	\$ 10,963,488	\$ 14,352,468	\$ 13,543,841	\$ 25,025,458	\$ 24,507,329

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, 2012 the City had total long-term debt outstanding of \$21,277,555, a decrease of \$(869,097), or 4%, in comparison with the prior year.

**City of Royse City Outstanding Debt
General Obligation Bonds, Certificates of Obligation, Capital Leases and Notes Payable
As of September 30,**

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 230,020	\$ 373,292	\$ 585,166	\$ 651,543	\$ 815,186	\$ 1,024,835
Certificates of Obligation	8,713,290	9,102,453	11,584,292	11,824,064	20,297,582	20,926,517
Tax Note	60,000	-	-	-	60,000	-
Capital Lease	37,885	77,372	-	21,928	37,885	99,300
Note Payable	66,902	96,000	-	-	66,902	96,000
Total	\$ 9,108,097	\$ 9,649,117	\$ 12,169,458	\$ 12,497,535	\$ 21,277,555	\$ 22,146,652

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

Economic Factors and Next Year's Budgets and Rates

The approved budget for the General Fund FY 2012-2013 reflects a 4% increase over the current year budgeted revenue. This is primarily due to increases in property, sales and franchise tax revenues.

This budget will raise more total property taxes than the current year budget by \$127,425 generated by tax revenue from new property added to the tax rolls.

The General Fund budget for FY2013 decreased expenditures by approximately \$258,000 from the current year. A large portion of this decrease reflects a change in the manner the City will record state traffic quarterly payments. Additionally, the City will receive approximately \$120,000 from the EDC for reimbursement of salaries.

The adopted tax rate for FY 2012-2013 will remain at \$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, 2012**

	Primary Government		Total	Component Unit
	Governmental Activities	Business-type Activities		EDC
ASSETS				
Cash and cash equivalents	\$ 1,215,920	\$ 775,579	\$ 1,991,499	\$ 975,455
Receivables, net of allowance for uncollectibles	466,218	692,563	1,158,781	62,114
Receivables - EDC	24,662	-	24,662	-
Prepaid expenses	-	185,000	185,000	-
Internal balances	(743,172)	743,172	-	-
Restricted assets:				
Cash and cash equivalents	869,405	2,145,346	3,014,751	-
Capital assets:				
Non-depreciable	925,169	3,081,395	4,006,564	-
Depreciable, net	9,747,821	11,271,073	21,018,894	-
Total Assets	12,506,023	18,894,128	31,400,151	1,037,569
LIABILITIES				
Accounts payable	48,778	19,254	68,032	-
Accounts payable - City	-	-	-	24,662
Escrow payable	-	900,000	900,000	-
Accrued expenses	161,506	17,833	179,339	-
Customer deposits	-	290,961	290,961	-
Accrued interest payable	49,989	74,221	124,210	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	8,147	566	8,713	-
Capital lease	24,476	-	24,476	-
Note payable	21,482	-	21,482	-
Bonds payable	488,098	48,902	537,000	-
Certificates of obligation	10,000	325,000	335,000	-
Due in more than one year:				
Compensated absences	73,326	5,094	78,420	-
Capital lease	13,409	-	13,409	-
Note payable	45,420	-	45,420	-
Bonds payable	7,930,212	536,264	8,466,476	-
Certificates of obligation	575,000	11,259,292	11,834,292	-
Total Liabilities	9,449,843	13,477,387	22,927,230	24,662
NET ASSETS				
Investment in capital assets, net of related debt	1,583,387	2,792,057	4,375,444	-
Restricted for:				
Debt service	913,963	-	913,963	-
Impact fee use	-	632,626	632,626	-
Capital projects	54,034	609,047	663,081	-
Police use	43,092	-	43,092	-
Municipal Court	53,096	-	53,096	-
Hotel/Motel use	161,686	-	161,686	-
Escrow payable	-	903,672	903,672	-
Unrestricted	246,922	479,339	726,261	1,012,907
Total Net Assets	\$ 3,056,180	\$ 5,416,741	\$ 8,472,921	\$ 1,012,907

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, 2012

Function/Program Activities	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 2,659,282	\$ 20,741	\$ 113,114	\$ -
Police	1,563,495	420,941	-	-
Fire	266,694	88,036	-	-
Streets	345,808	238,625	-	-
Municipal court	357,937	15,955	-	-
Community services	237,973	819,623	-	-
Parks	392,248	2,370	-	-
Library	92,047	1,458	-	-
Community development	8,193	172	-	-
Main street	-	6,640	-	-
Environmental services	102,989	2,235	-	-
Interest on long-term debt	416,203	-	-	-
Total governmental activities	6,442,869	1,616,796	113,114	-
Business-type Activities:				
Water and sewer	3,406,346	4,198,626	-	-
Total business-type activities	3,406,346	4,198,626	-	-
Total primary government	9,849,215	5,815,422	113,114	-
Component Unit				
Economic Development Corporation	162,349	-	-	-
Total component unit	\$ 162,349	\$ -	\$ -	\$ -

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 adjustments

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
\$ (2,525,427)	\$ -	\$ (2,525,427)	\$ -
(1,142,554)	-	(1,142,554)	-
(178,658)	-	(178,658)	-
(107,183)	-	(107,183)	-
(341,982)	-	(341,982)	-
581,650	-	581,650	-
(389,878)	-	(389,878)	-
(90,589)	-	(90,589)	-
(8,021)	-	(8,021)	-
6,640	-	6,640	-
(100,754)	-	(100,754)	-
(416,203)	-	(416,203)	-
<u>(4,712,959)</u>	<u>-</u>	<u>(4,712,959)</u>	<u>-</u>
-	792,280	792,280	-
-	792,280	792,280	-
<u>(4,712,959)</u>	<u>792,280</u>	<u>(3,920,679)</u>	<u>-</u>
-	-	-	(162,349)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (162,349)</u>
3,161,579	-	3,161,579	-
1,096,970	-	1,096,970	365,503
411,909	-	411,909	-
64,036	-	64,036	-
6,099	5,780	11,879	430
81,032	65,310	146,342	1,129
225,361	(225,361)	-	-
<u>5,046,986</u>	<u>(154,271)</u>	<u>4,892,715</u>	<u>367,062</u>
334,027	638,009	972,036	204,713
2,882,830	5,241,764	8,124,594	808,194
(160,677)	(463,032)	(623,709)	-
<u>\$ 3,056,180</u>	<u>\$ 5,416,741</u>	<u>\$ 8,472,921</u>	<u>\$ 1,012,907</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, 2012

	General Fund	Debt Service Fund	2007 Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 1,086,060	\$ -	\$ -	\$ 129,860	\$ 1,215,920
Receivables, net	364,336	101,882	-	-	466,218
Receivables - EDC	24,662	-	-	-	24,662
Due from other funds	-	299,969	-	-	299,969
Restricted - cash and cash equivalents	-	610,593	54,034	204,778	869,405
Total Assets	1,475,058	1,012,444	54,034	334,638	2,876,174
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	46,672	-	-	2,106	48,778
Accrued expenses	161,506	-	-	-	161,506
Due to other funds	1,006,754	-	-	36,387	1,043,141
Deferred revenues	13,873	98,481	-	-	112,354
Total Liabilities	1,228,805	98,481	-	38,493	1,365,779
Fund Balances					
Restricted for:					
Debt service	-	913,963	-	-	913,963
Capital projects	-	-	54,034	-	54,034
Police	-	-	-	43,092	43,092
Municipal court use	-	-	-	53,096	53,096
Hotel/Motel Use	-	-	-	161,686	161,686
Assigned to:					
Library	-	-	-	3,679	3,679
Senior Center	-	-	-	1,250	1,250
Public Safety	-	-	-	34,222	34,222
Animal Control	-	-	-	744	744
Unassigned	246,253	-	-	(1,624)	244,629
Total Fund Balances	246,253	913,963	54,034	296,145	1,510,395
Total Liabilities and Fund Balances	\$ 1,475,058	\$ 1,012,444	\$ 54,034	\$ 334,638	\$ 2,876,174

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, 2012**

Total fund balances - governmental funds balance sheet	\$ 1,510,395
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.	13,504,519
Accumulated depreciation has not been included in the governmental fund financial statements.	(2,831,529)
Other assets are not available to pay for current-period expenditures and, therefore are deferred in the funds.	112,354
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(9,108,097)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(81,473)
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.	(49,989)
	<hr/>
Net assets of governmental activities - statement of net assets	<u><u>\$ 3,056,180</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, 2012

	General Fund	Debt Service Fund	2007 Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property, including P&I	\$ 1,345,546	\$ 1,825,133	\$ -	\$ -	\$ 3,170,679
Sales	1,096,970	-	-	-	1,096,970
Franchise	411,909	-	-	-	411,909
Hotel/Motel	-	-	-	64,036	64,036
Fines and fees	624,028	-	-	26,052	650,080
Licenses and permits	157,005	-	-	-	157,005
Refuse collection fees	794,560	-	-	-	794,560
Operating contribution	113,114	-	-	-	113,114
Donations	933	-	-	22,005	22,938
Investment income	2,361	3,242	496	-	6,099
Miscellaneous	46,216	-	-	34,816	81,032
Total Revenues	4,592,642	1,828,375	496	146,909	6,568,422
EXPENDITURES					
Current:					
Administrative	1,913,681	-	-	-	1,913,681
Police	1,482,954	-	-	32,819	1,515,773
Fire department	206,067	-	-	1,290	207,357
Streets	198,946	-	-	-	198,946
Municipal court	355,235	-	-	236	355,471
Community services	219,347	-	-	-	219,347
Parks	353,415	-	-	7,787	361,202
Library	84,472	-	-	-	84,472
Museum	10,724	-	-	-	10,724
Senior citizens center	75,747	-	-	-	75,747
Main street	54,670	-	-	10,877	65,547
Environmental services	101,224	-	-	1,765	102,989
Community development	-	-	-	8,193	8,193
Miscellaneous	-	3,100	-	544	3,644
Debt service:					-
Principal retirement	99,525	535,988	-	-	635,513
Interest	4,561	423,756	-	-	428,317
Bond issuance costs	-	-	1,000	-	1,000
Capital outlays	43,945	-	53,856	-	97,801
Total Expenditures	5,204,513	962,844	54,856	63,511	6,285,724
Excess (deficiency) of revenues over (under) expenditures	(611,871)	865,531	(54,360)	83,398	282,698
Other Revenues and Financing Sources (uses)					
Transfers	1,072,387	(851,415)	-	4,389	225,361
Capital lease proceeds	39,335	-	-	-	39,335
Bond proceeds	-	-	60,000	-	60,000
Intergovernmental expense	-	-	(500,000)	-	(500,000)
Total other financing sources (uses)	1,111,722	(851,415)	(440,000)	4,389	(175,304)
Net change in fund balances	499,851	14,116	(494,360)	87,787	107,394
Fund balances, October 1	(271,918)	899,847	548,394	208,358	1,384,681
Prior period adjustments	18,320	-	-	-	18,320
Fund balances, September 30	\$ 246,253	\$ 913,963	\$ 54,034	\$ 296,145	\$ 1,510,395

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, 2012**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 107,394
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 2012 capital outlays is to increase net assets.	97,801
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.	(388,299)
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.	635,513
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.	(60,000)
Current year capital lease 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.	(39,335)
Changes to vacation and sick liabilities are not shown in the fund financial statements. The net effect of the current year increase is to decrease net assets.	(18,506)
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.	8,559
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	<u>(9,100)</u>
Change in net assets - governmental funds	<u>\$ 334,027</u>

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, 2012**

	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 775,579
Receivables, net	692,563
Due from other funds	743,172
Prepaid expenses	185,000
Total Current Assets	<u>2,396,314</u>
Noncurrent Assets:	
Cash and cash equivalents - Restricted	2,145,346
Capital assets:	
Land	216,827
Intangible asset	200,500
Machinery & equipment	232,080
Buildings	39,551
Vehicles	261,364
Infrastructure	13,546,818
Construction in progress	2,664,068
Less: accumulated depreciation	<u>(2,808,740)</u>
Total capital assets, net	<u>14,352,468</u>
Total noncurrent assets	<u>16,497,814</u>
Total Assets	<u><u>18,894,128</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current liabilities:	
Accounts payable	19,254
Escrow payable	900,000
Customer deposits	290,961
Accrued interest	74,221
Accrued expenses	17,833
Compensated absences - current	566
Certificates of obligation - current	325,000
Bonds payable - current	48,902
Total Current Liabilities	<u>1,676,737</u>
Noncurrent liabilities:	
Compensated absences	5,094
Certificates of obligation	11,259,292
Bonds payable	536,264
Total noncurrent liabilities	<u>11,800,650</u>
Total liabilities	<u><u>13,477,387</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	2,792,057
Restricted for:	
Impact fee use	632,626
Capital projects	609,047
Escrow payable	903,672
Unrestricted	479,339
Total Net Assets	<u><u>\$ 5,416,741</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, 2012

	<u>Water & Sewer Fund</u>
OPERATING REVENUES:	
Charges for services - water	\$ 2,368,320
Charges for services - sewer	1,582,258
Water impact fees	193,900
Penalty and reconnect fees	54,148
Other services	65,310
Total Operating Revenues	<u>4,263,936</u>
OPERATING EXPENSES:	
Water operations	1,480,582
Sewer operations	1,061,590
Depreciation/amortization	318,435
Total Operating Expenses	<u>2,860,607</u>
Operating Income	<u>1,403,329</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	5,780
Interest expense	(545,739)
Total Non-Operating Revenues (Expenses)	<u>(539,959)</u>
Transfers	<u>(225,361)</u>
Change in Net Assets	638,009
Net Assets, October 1	5,241,764
Prior Period Adjustments	(463,032)
Net Assets, September 30	<u>\$ 5,416,741</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, 2012**

	Business-Type Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,978,834
Cash received from other sources	259,210
Cash paid to employees	(292,571)
Cash paid to suppliers	(2,108,924)
Net cash provided by (used for) operating activities	<u>1,836,549</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(225,361)
Net cash (used for) non-capital financing activities	<u>(225,361)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,127,062)
Principal paid	(337,940)
Interest paid	(538,209)
Net cash provided by (used for) capital & related financing activities	<u>(2,003,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	5,780
Net cash provided by investing activities	<u>5,780</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(386,243)
Cash and Cash Equivalents at Beginning of Year	3,307,168
Cash and Cash Equivalents at End of Year	<u>\$ 2,920,925</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 1,403,329
Adjustment to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	318,435
Prior period adjustment	(73,497)
Change in Assets and Liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(25,892)
Inventory	57,273
Prepaid expenses	(185,000)
Increase (decrease) in liabilities:	
Accounts payable	(209,282)
Escrow payable	525,000
Customer deposits	26,183
Total adjustments	<u>433,220</u>
Net cash provided by operating activities	<u>\$ 1,836,549</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, 2012**

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 GAAP applicable to state and local governments. GAAP for local government include those principles prescribed by the by the GASB, the American Institute of Certified Public Accountants in the publication entitled *State and Local Government-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's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and the data from these units are combined with a date of the primary government. A discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

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

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

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.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (continued)

3. New Accounting Pronouncements

GASB Statement Number 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34" will be implemented by the City as required by GASB during the fiscal year ending September 30, 2013. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The statement also amends the criteria for blending component units and provides additional guidance for blending a component unit if the primary government is a business-type activity and clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and will be implemented by the City as required by GASB during the fiscal year ending September 30, 2013. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The City is currently evaluating the potential changes to the financial statements as a result of the implementation of 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 units. 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 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 2007 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 separate column in the fund financial statements.

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 Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the costs of sales and service administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

4. Basis of Presentation, Basis of Accounting
 - a. Basis of Presentation (continued)

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989.

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.

- b. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures 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.

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 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. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

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 needed.

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 City reports the following major governmental funds:

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.

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.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

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

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 City reports the following major business-type fund:

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.

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.

Legally authorized transfers are treated as transfers and are included in the results of operations of both governmental and proprietary funds.

- 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.

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, 2012, the City had a tax rate of \$0.6729 per \$100 assessed valuation based upon the maximum rates described above.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts (continued)

d. 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.

e. 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 2012, \$73,010 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

f. 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, 2012. No unused sick or holiday leave will be paid out upon termination of employment.

g. 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 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 expensed in the year they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as 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.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts (continued)

h. Fund Balance Policies

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.

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance or resolution approved by the Council at the City's Council meeting. The formal action must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

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

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

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. As of September 30, 2012, the City is not in compliance with their fund balance policy as unassigned fund balance in the General Fund is only equal to 5% of General Fund expenditures.

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.

i. Federal and State Grants

Grants and shared revenues are generally accounted for within the fund financed.

j. 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.

k. 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.

l. Use of Estimates

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

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

5. Financial Statement Amounts (continued)

m. Program Revenues

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

n. 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 administrative, police, municipal court, community services, and parks departments, as well as interest expenditures of the General Fund by \$269,081. Also, miscellaneous and principal expenditures in the Debt Service Fund exceeded appropriations by \$25,574.

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 CFO 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.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,006,248 and the bank balance was \$5,212,124. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012, 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 were fully collateralized.

Cash and investments as of September 30, 2012 consist of and are classified in the financial statements as follows:

Statement of net assets:

Primary Government	
Cash and Cash Equivalents	\$ 1,991,499
Restricted cash and cash equivalents	3,014,751
Total cash and cash equivalents	<u>\$ 5,006,250</u>
Cash on hand	\$ 450
Savings and checking accounts	903,340
Investment Pools	4,102,459
Total cash and cash equivalents	<u>\$ 5,006,249</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, 2012, 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	\$ 4,102,459	45	N/A	AAA-m
	<u>\$ 4,102,459</u>			

As of September 30, 2012 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, 2012**

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, 2012, 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, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Water and Sewer	Total
Receivables:				
Taxes	\$ 240,448	\$ 103,915	\$ -	\$ 344,363
Fees and Charges	27,876	-	858,874	886,750
Other	97,139	-	9,114	106,253
Gross Receivables	365,463	103,915	867,988	1,337,366
Less: allowance for uncollectibles	(1,127)	(2,033)	(175,425)	(178,585)
Net Total Receivables	<u>\$ 364,336</u>	<u>\$ 101,882</u>	<u>\$ 692,563</u>	<u>\$ 1,158,781</u>

The Water and Sewer Fund accounts receivable includes unbilled charges for services of \$200,983 rendered as of fiscal year end.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

E. Capital Assets

Capital asset activity for the period ended September 30, 2012 was as follows:

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 904,165	\$ -	\$ 21,004	\$ -	\$ 925,169
Total capital assets, not being depreciated:	904,165	-	21,004	-	925,169
Capital assets, being depreciated:					
Buildings and Improvements	10,106,672	-	32,852	-	10,139,524
Machinery & Equipment	676,799	-	8,200	-	684,999
Vehicles	1,719,082	-	35,745	-	1,754,827
Total capital assets being depreciated:	12,502,553	-	76,797	-	12,579,350
Total Fixed Assets	13,406,718	-	97,801	-	13,504,519
Less accumulated depreciation for:					
Buildings and Improvements	(820,310)	-	(214,739)	-	(1,035,049)
Machinery & Equipment	(498,513)	-	(66,794)	-	(565,307)
Vehicles	(1,124,407)	-	(106,766)	-	(1,231,173)
Total accumulated depreciation	(2,443,230)	-	(388,299)	-	(2,831,529)
Total capital assets, being depreciated, net	10,059,323	-	(311,502)	-	9,747,821
Governmental activities capital assets, net	\$ 10,963,488	\$ -	\$ (290,498)	\$ -	\$ 10,672,990
Business-type Funds:					
Capital assets, not being depreciated					
Land	\$ 216,827	\$ -	\$ -	\$ -	\$ 216,827
Construction-In-Progress	3,602,047	(2,056,042)	1,118,063	-	2,664,068
Intangible assets	200,500	-	-	-	200,500
Total capital assets, not being depreciated:	4,019,374	(2,056,042)	1,118,063	-	3,081,395
Capital assets, being depreciated:					
Water & Sewer System	11,490,776	2,056,042	-	-	13,546,818
Buildings and Improvements	39,551	-	-	-	39,551
Machinery & Equipment	180,173	-	8,999	-	189,172
Office Furniture and equipment	42,908	-	-	-	42,908
Vehicles	261,364	-	-	-	261,364
Total capital assets being depreciated:	12,014,772	2,056,042	8,999	-	14,079,813
Total Fixed Assets	16,034,146	-	1,127,062	-	17,161,208
Less accumulated depreciation for:					
Water & Sewer System	(2,036,685)	-	(294,032)	-	(2,330,717)
Buildings and Improvements	(30,625)	-	(1,067)	-	(31,692)
Machinery & Equipment	(162,202)	-	(5,431)	-	(167,633)
Office Furniture & Equipment	(41,453)	-	-	-	(41,453)
Vehicles	(219,340)	-	(17,905)	-	(237,245)
Total accumulated depreciation:	(2,490,305)	-	(318,435)	-	(2,808,740)
Total capital assets, being depreciated, net	9,524,467	2,056,042	(309,436)	-	11,271,073
Business-type activities capital assets, net	\$ 13,543,841	\$ -	\$ 808,627	\$ -	\$ 14,352,468

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

E. Capital Assets (continued)

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

Governmental activities:	
Administration	\$ 66,877
Fire Department	59,337
Police Department	47,723
Streets	146,862
Municipal Court	2,465
Community Services	18,627
Parks & Recreation	38,833
Library	7,575
Total depreciation expense - governmental activities	<u>\$ 388,299</u>
Business-type activities:	
Water and Sewer	\$ 318,435
Total depreciation expense - business-type activities	<u>\$ 318,435</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	
	Fund	Service	
	Fund	Fund	Total
Tax Revenue	<u>\$ 13,873</u>	<u>\$ 98,481</u>	<u>\$ 112,354</u>

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2012, is as follows:

	Beginning Balance	PPA	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities						
Bonds Payable:						
General Obligation Bonds & Certificates of Obligation	\$ 9,556,444	\$ -	\$ -	\$ (535,988)	\$ 9,020,456	\$ 498,098
Tax Note	-	-	60,000	-	60,000	-
Less deferred amounts:						
For issuance discounts	(87,547)	-	5,837	-	(81,710)	-
For issuance premiums	6,848	-	-	(2,284)	4,564	-
Total bonds payable	<u>9,475,745</u>	<u>-</u>	<u>65,837</u>	<u>(538,272)</u>	<u>9,003,310</u>	<u>498,098</u>
Capital Leases	77,372	-	39,335	(78,822)	37,885	24,476
Compensated Absences	62,967	-	18,506	-	81,473	8,147
Notes Payable	96,000	(8,395)	-	(20,703)	66,902	21,482
Governmental activity Long-term liabilities	<u>\$ 9,712,084</u>	<u>\$ (8,395)</u>	<u>\$ 123,678</u>	<u>\$ (637,797)</u>	<u>\$ 9,189,570</u>	<u>\$ 552,203</u>

CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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	\$ 12,583,556	\$ -	\$ (316,012)	\$ 12,267,544	\$ 373,902
Less deferred amounts:					
For issuance discounts	(90,994)	-	6,664	(84,330)	-
For issuance premiums	6,235	-	(1,138)	5,097	-
On refunding	(23,190)	-	4,337	(18,853)	-
Total Bonds Payable	12,475,607	-	(306,149)	12,169,458	373,902
Capital Leases	21,928	-	(21,928)	-	-
Compensated Absences	5,660	-	-	5,660	566
Business-type activity Long-term liabilities	\$ 12,503,195	\$ -	\$ (328,077)	\$ 12,175,118	\$ 374,468

Changes in Governmental Bonded Debt by Series

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30,			Amounts Outstanding September 30, 2012	Due Within One Year
			2011	Increase	Retired		
GO Bonds, Series 1976	5.00%	\$ 150,000	\$ 35,000	\$ -	\$ (7,000)	\$ 28,000	\$ 7,000
GO Bonds, Series 2005	3.25-4.00%	1,149,476	331,444	-	(133,988)	197,456	81,098
CO, Series 2006	4.03%	1,875,000	1,645,000	-	(80,000)	1,565,000	85,000
CO, Series 2007A	4.25-4.75%	7,850,000	7,010,000	-	(305,000)	6,705,000	315,000
CO, Series 2011	2.10-3.25%	535,000	535,000	-	(10,000)	525,000	10,000
Tax Note, Series 2012	2.25%	60,000	-	60,000	-	60,000	-
Total Bonds and CO's payable		\$ 11,619,476	\$ 9,556,444	\$ 60,000	\$ (535,988)	\$ 9,080,456	\$ 498,098

Debt service requirements are as follows:

Year Ending September 30:	Total		
	Principal	Interest	Requirements
2013	\$ 498,098	\$ 399,727	\$ 897,825
2014	514,572	378,926	893,498
2015	560,786	352,662	913,448
2016	482,000	325,247	807,247
2017	510,000	315,736	825,736
2018-2022	2,905,000	1,226,651	4,131,651
2023-2027	3,455,000	518,926	3,973,926
2028-2031	155,000	19,750	174,750
Totals	\$ 9,080,456	\$ 3,537,625	\$ 12,618,081

\$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 issued for the purpose of refunding all of the issuer's outstanding combination tax and revenue certificates of obligation, Series 1992 and 2000. This bond is split between the governmental and proprietary activities.

\$1,875,000 Certificate of Obligation, Series 2006 issued for the purpose of paying obligations in connection with: (i) acquiring, renovating, improving and equipping a building located at 305 N. Arch Street 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.

\$7,850,000 Certificate of Obligation, Series 2007A issued for the purpose of (i) 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.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G. Long-Term Obligations (continued)

\$535,000 Certificate of Obligation, Series 2011 issued for the purpose of (i) constructing and improving streets, roads, alleys and sidewalks including related drainage, signalization, landscaping, lighting and signage, and the acquisition of land and interest in land necessary therefore; and (ii) paying legal, fiscal and engineering fees in connection with these projects.

\$60,000 2012 Limited Tax Note issued for the purpose of acquiring approximately 1.5 acres of land and building thereon, located at 206, 207 and 213 North Houston Street, for future municipal facilities, and to pay the costs of issuance incurred in connection with this issuance.

Changes in Business-type Bonded Debt by Series

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding		Retired	Amounts Outstanding September 30, 2012	Due Within One Year
			September 30, 2011	Increase			
GO Bonds, Series 2005	3.25-4.00%	\$ 480,524	\$ 138,556	\$ -	\$ (56,012)	\$ 82,544	\$ 33,902
GO Bonds, Series 2010	2.00-3.75%	555,000	540,000	-	(15,000)	525,000	15,000
CO, Series 2005	3.25-4.50%	5,015,000	3,965,000	-	(5,000)	3,960,000	75,000
CO, Series 2007B	5.49-6.38%	4,695,000	4,250,000	-	(165,000)	4,085,000	175,000
CO, Series 2010	2.00-4.50%	3,690,000	3,690,000	-	(75,000)	3,615,000	75,000
Total Bonds and CO's payable		<u>\$ 14,435,524</u>	<u>\$ 12,583,556</u>	<u>\$ -</u>	<u>\$ (316,012)</u>	<u>\$ 12,267,544</u>	<u>\$ 373,902</u>

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	
2013	\$ 373,902	\$ 597,071	\$ 970,973
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	695,000	512,174	1,207,174
2018-2022	3,560,000	2,060,054	5,620,054
2023-2027	4,260,000	1,095,485	5,355,485
2028-2031	1,780,000	163,125	1,943,125
Totals	<u>\$ 12,267,544</u>	<u>\$ 6,110,788</u>	<u>\$ 18,378,332</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. This bond is split between the governmental and proprietary activities.

\$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 with this project.

\$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.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G. Long-Term Obligations (continued)

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.

Capital Leases

The City has the following lease agreements:

\$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, 2012.

\$39,335 Software Lease Agreement with Government Capital Corporation for financing the purchase of software dated July 12, 2011. It is payable in annual installments of \$14,471, including interest. The lease is secured by equipment and has a carrying value of \$25,834 at September 30, 2012.

Capital lease repayment requirements are as follows:

Year Ending September 30:	General Fund	Proprietary Fund	Total Requirements
2013	\$ 28,079	\$ -	\$ 28,079
2014	14,471	-	14,471
Totals	42,550	-	42,550
Amounts Representing Interest	(4,665)	-	(4,665)
Present Value of Minimum Lease Payments	\$ 37,885	\$ -	\$ 37,885

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
2013	\$ 21,482	\$ 2,518	\$ 24,000
2014	22,291	1,709	24,000
2015	23,129	870	24,000
Totals	\$ 66,902	\$ 5,097	\$ 71,999

H. Restricted Assets

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

Purpose	Cash & Cash Equivalents
Public Safety	\$ 43,092
Hotel/Motel Use	161,686
Capital Projects	54,034
Debt Service Fund	610,593
	\$ 869,405

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

Purpose	Cash & Cash Equivalents
Capital Projects	\$ 609,047
Escrow Payable	903,672
Impact Fees	632,627
	\$ 2,145,346

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

I. Pension Plan

1. Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information ("RSI") for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	Plan Year	
	2011	2012
Employee deposit rate:	7%	7%
Matching ratio (city to employee):	2 to 1	2 to 1
Years required for vesting	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20 100%	60/5, 0/20 100%
Updated Service Credit	Repeating, Transfers	Repeating, Transfers 30% of CPI
Annuity increase (to retirees)	0% of CPI	Repeating

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 required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	12/31/09	12/31/10	12/31/11
Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level %	Level %	Level %
GASB25 equivalent single Amortization period	23.3 yrs closed period	23.1 yrs closed period	22.3 yrs closed period
Amortization period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10yr Smoothed Market	10yr Smoothed Market	10yr Smoothed Market
Actuarial assumptions:			
Investment rate of return *	7.5%	7%	7%
Projected salary increase *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation rate at Cost-of-living Adjustments	3.00% 0.00%	3.00% 0.00%	3.00% 0.90%

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. Pension Plan

2. Contributions (continued)

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Schedule of Actuarial Liabilities and Funding Progress			
Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Value of Assets	\$ 1,597,312	\$ 2,267,612	\$ 2,634,944
Actuarial Accrued Liability	2,396,021	3,276,858	3,814,485
Percentage Funded	66.7%	69.2%	69.1%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	798,709	1,009,246	1,179,541
Annual Covered Payroll	1,935,740	1,987,438	2,108,279
UAAL as a Percentage of Covered Payroll	41.3%	50.8%	55.9%
 Net Pension Obligation (NPO) at the Beginning of Period	 \$ -	 \$ -	 \$ -
Annual Pension Cost:			
Annual required contribution (ARC)	Plus 180,873	199,253	199,038
Contributions Made	Less (180,873)	(199,253)	(199,038)
Net Pension Obligation (Asset) at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

3. 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 2012, 2011, and 2010 were \$3,067, \$2,985, and \$2,810, respectively, which equaled the required contributions each year.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

J. Health Care Coverage

During the year ended September 30, 2012, employees of the City were covered by a health and vision insurance plan. The City contributed \$455 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 Blue Cross Blue Shield and vision insurance is provided by Humana Comp Benefits.

K. 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 2012-2013.

L. 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.

M. Commitments and Contingencies

Construction Commitments

The City has active construction projects as of September 30, 2012. The projects include mainly water and sewer infrastructure and improvements.

At year end, the City's commitments with contractors are as follows:

Proprietary Funds

<u>Project</u>	<u>Project Budget</u>		<u>Remaining Commitment</u>
	<u>Appropriation</u>	<u>Spent to Date</u>	
Verandah Elevated Tank - Fund 203	\$ 2,697,835	\$ 2,591,107	\$ 106,728
CCN Acquisition	-	72,961	(72,961)
Total Construction in Progress	\$ 2,697,835	\$ 2,664,068	\$ 33,767

The City is constantly acquiring various CCN's, therefore there is not a specific budget appropriation amount for those projects.

N. 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	457,325,000
Gallons Billed	395,412,029

The City has a contract with North Texas Municipal Water District (NTMWD) to purchase substantially all of its water. Under 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, 2012 were \$785,099.

CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

O. Interfund Transactions

<u>Funds</u>	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Total</u>
General Fund	\$ 1,126,478	\$ (54,091)	\$ 1,072,387
Debt Service Fund	-	(851,415)	(851,415)
Other Governmental Funds	18,134	(13,745)	4,389
Water and Sewer Fund	(2,811,655)	2,586,294	(225,361)
Total Major Funds	<u>\$ (1,667,043)</u>	<u>\$ 1,667,043</u>	<u>\$ -</u>

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

P. Prior Period Adjustments

Prior period adjustments recorded as follows:

Governmental activities:

Expense bond issuance costs	\$ (178,997)
To adjust accounts payable	18,320
	<u>\$ (160,677)</u>

Business-type activities:

Expense bond issuance costs	\$ (389,536)
To adjust accounts payable	(16,223)
To write off old account balances	(57,273)
	<u>\$ (463,032)</u>

Q. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2012 up through April 12, 2013, the date the financial statements were available to be issued. During this period, the following items were noted for disclosure:

- The City issued a \$63,680 Equipment Lease Purchase Agreement for financing the purchase of police equipment dated October 9, 2012 and executed as of October 23, 2012. It is payable in annual installments of \$6,965, including interest. The lease is secured by equipment.
- On January 8, 2013, the City approved the issuance and sale of Combination Tax and Revenue Certificates of Obligation, series 2013, levying an annual ad valorem tax and providing for the security for and payment of said certificates. The issuance amount of \$1,590,000 will be used to fund the expansion of the water and sewer system. On January 22, 2013, the City made a motion to approve the ordinance related to sale of Combination Tax and Revenue CO, series 2013 to correct the amount to \$1,585,000 as First Southwest will cover \$5,000.

**CITY OF ROYSE CITY, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

R. 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 Deposits

At September 30, 2012, the carrying amount of the EDC's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$975,455 and the bank balance was \$975,668. The EDC's cash deposits at September 30, 2012 and during the year ended September 30, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the EDC's agent bank in the EDC's name. The EDC deposits with financial institutions in excess of federal depository insurance were fully collateralized.

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government	
Cash and Cash Equivalents	\$ 975,455
Total cash and cash equivalents	<u>\$ 975,455</u>
Savings and checking accounts	975,455
Total cash and cash equivalents	<u>\$ 975,455</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>\$ 62,114</u>
Gross Receivables	62,114
Less: allowance for uncollectible	-
Net Total Receivables	<u>\$ 62,114</u>



REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF ROYSE CITY, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property, including P&I	\$ 1,333,450	\$ 1,333,450	\$ 1,345,546	\$ 12,096
Sales	1,000,500	999,000	1,096,970	97,970
Franchise	370,192	370,192	411,909	41,717
Fines and fees	571,887	561,887	624,028	62,141
Licenses and permits	15,000	16,500	157,005	140,505
Refuse collection fees	722,000	722,000	794,560	72,560
Grants	111,503	111,503	113,114	1,611
Donations	-	-	933	933
Investment income	2,000	2,000	2,361	361
Miscellaneous	77,000	77,000	46,216	(30,784)
Total Revenues	4,203,532	4,193,532	4,592,642	399,110
EXPENDITURES				
Current:				
Administrative	1,815,120	1,761,505	1,913,681	(152,176)
Police	1,423,462	1,458,593	1,482,954	(24,361)
Fire department	251,594	253,732	206,067	47,665
Streets	230,214	229,695	198,946	30,749
Municipal court	314,971	316,916	355,235	(38,319)
Community services	205,506	187,007	219,347	(32,340)
Parks	342,251	336,091	353,415	(17,324)
Library	83,370	85,099	84,472	627
Museum	12,900	13,950	10,724	3,226
Senior citizens center	77,507	78,641	75,747	2,894
Main street	74,256	75,774	54,670	21,104
Environmental services	106,566	108,695	101,224	7,471
Debt Service:				
Principal retirement	124,848	124,848	99,525	25,323
Interest	-	-	4,561	(4,561)
Capital outlays	8,500	8,500	43,945	(35,445)
Total Expenditures	5,071,065	5,039,046	5,204,513	(165,467)
Excess of revenues over (under) expenditures	(867,533)	(845,514)	(611,871)	233,643
Other Financing Sources (uses)				
Transfers	1,090,733	1,065,135	1,072,387	7,252
Capital lease proceeds	-	-	39,335	39,335
Total other financing sources	1,090,733	1,065,135	1,111,722	46,587
Net change in fund balance	223,200	219,621	499,851	280,230
Fund Balance, October 1	(271,918)	(271,918)	(271,918)	
Prior period adjustments	-	-	18,320	
Fund Balance, September 30	\$ (48,718)	\$ (52,297)	\$ 246,253	

CITY OF ROYSE CITY, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

TMRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST FIVE 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%
2012	12/31/2011	\$ 2,634,944	\$ 3,814,485	\$ 1,179,541	69.1%	\$ 2,108,279	55.9%	\$ 199,038	\$ 199,038	100%

SUPPLEMENTARY INFORMATION



CITY OF ROYSE CITY, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 1,807,416	\$ 1,807,416	\$ 1,825,133	\$ 17,717
Investment Income	1,000	1,000	3,242	2,242
Total Revenues	<u>1,808,416</u>	<u>1,808,416</u>	<u>1,828,375</u>	<u>19,959</u>
EXPENDITURES				
Current:				
Miscellaneous	-	-	3,100	(3,100)
Debt Service:				
Principal Retirement	513,514	513,514	535,988	(22,474)
Interest and Fiscal Agent Fees	429,676	429,676	423,756	5,920
Total Expenditures	<u>943,190</u>	<u>943,190</u>	<u>962,844</u>	<u>(19,654)</u>
Excess of revenues over expenditures	<u>865,226</u>	<u>865,226</u>	<u>865,531</u>	<u>305</u>
Other Financing Sources (Uses)				
Transfers	<u>(854,712)</u>	<u>(854,712)</u>	<u>(851,415)</u>	<u>3,297</u>
Total Other Financing Sources and Uses	<u>(854,712)</u>	<u>(854,712)</u>	<u>(851,415)</u>	<u>3,297</u>
Net change in fund balance	10,514	10,514	14,116	3,602
Fund Balance, October 1	<u>899,847</u>	<u>899,847</u>	<u>899,847</u>	
Fund Balance, September 30	<u>\$ 910,361</u>	<u>\$ 910,361</u>	<u>\$ 913,963</u>	

**CITY OF ROYSE CITY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Hotel/ Motel	Court Technology	Court Security	Citizen Police Academy	Police Forfeiture	State Police	TXPW Grant	Conservation Grant	Library Grant	Library
ASSETS										
Cash and cash equivalents	\$ -	\$ 29,314	\$ 23,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,279	\$ 400
Cash and cash equivalents - Restricted	161,686	-	-	-	21,335	21,757	-	-	-	-
Total Assets	<u>161,686</u>	<u>29,314</u>	<u>23,782</u>	<u>-</u>	<u>21,335</u>	<u>21,757</u>	<u>-</u>	<u>-</u>	<u>3,279</u>	<u>400</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	1,597	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,597</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances										
Restricted for:										
Municipal court use	-	29,314	23,782	-	-	-	-	-	-	-
Police	-	-	-	-	21,335	21,757	-	-	-	-
Hotel/Motel Use	161,686	-	-	-	-	-	-	-	-	-
Assigned to:										
Library	-	-	-	-	-	-	-	-	3,279	400
Senior Center	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	-
Animal Control	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	(1,597)	-	-	-
Total Fund Balances	<u>161,686</u>	<u>29,314</u>	<u>23,782</u>	<u>-</u>	<u>21,335</u>	<u>21,757</u>	<u>(1,597)</u>	<u>-</u>	<u>3,279</u>	<u>400</u>
Total Liabilities and Fund Balances	<u>\$ 161,686</u>	<u>\$ 29,314</u>	<u>\$ 23,782</u>	<u>\$ -</u>	<u>\$ 21,335</u>	<u>\$ 21,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,279</u>	<u>\$ 400</u>

**CITY OF ROYSE CITY, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Senior Center	Main Street	Police	Fire	Splash Park	Animal	Parks	Juvenile Case Management Fund	Total
ASSETS									
Cash and cash equivalents	\$ 1,250	\$ 292	\$ 3,654	\$ 44,725	\$ -	\$ 744	\$ 1,787	\$ 20,633	\$ 129,860
Cash and cash equivalents - Restricted	-	-	-	-	-	-	-	-	204,778
Total Assets	<u>1,250</u>	<u>292</u>	<u>3,654</u>	<u>44,725</u>	<u>-</u>	<u>744</u>	<u>1,787</u>	<u>20,633</u>	<u>334,638</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	-	319	-	-	-	-	1,787	-	2,106
Due to other funds	-	-	-	34,790	-	-	-	-	36,387
Total Liabilities	<u>-</u>	<u>319</u>	<u>-</u>	<u>34,790</u>	<u>-</u>	<u>-</u>	<u>1,787</u>	<u>-</u>	<u>38,493</u>
Fund Balances									
Restricted for:									
Municipal court use	-	-	-	-	-	-	-	-	53,096
Police	-	-	-	-	-	-	-	-	43,092
Hotel/Motel Use	-	-	-	-	-	-	-	-	161,686
Assigned to:									
Library	-	-	-	-	-	-	-	-	3,679
Senior Center	1,250	-	-	-	-	-	-	-	1,250
Public Safety	-	-	3,654	9,935	-	-	-	20,633	34,222
Animal Control	-	-	-	-	-	744	-	-	744
Unassigned	-	(27)	-	-	-	-	-	-	(1,624)
Total Fund Balances	<u>1,250</u>	<u>(27)</u>	<u>3,654</u>	<u>9,935</u>	<u>-</u>	<u>744</u>	<u>-</u>	<u>20,633</u>	<u>296,145</u>
Total Liabilities and Fund Balances	<u>\$ 1,250</u>	<u>\$ 292</u>	<u>\$ 3,654</u>	<u>\$ 44,725</u>	<u>\$ -</u>	<u>\$ 744</u>	<u>\$ 1,787</u>	<u>\$ 20,633</u>	<u>\$ 334,638</u>

**CITY OF ROYSE CITY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Hotel/ Motel	Court Technology	Court Security	Citizen Police Academy	Police Forfeiture	State Police	TXPW Grant	Conservation Grant	Library Grant	Library
REVENUES										
Taxes:										
Hotel/Motel	\$ 64,036	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and Fees	-	9,095	6,860	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	15,247	19,569	-	-	-	-
Total Revenues	64,036	9,095	6,860	-	15,247	19,569	-	-	-	-
EXPENDITURES										
Current:										
Police	-	-	-	-	17,907	9,570	-	-	-	-
Fire Department	-	-	-	-	-	-	-	-	-	-
Municipal Court	-	236	-	-	-	-	-	-	-	-
Parks	-	-	-	-	-	-	-	-	-	-
Main Street	-	-	-	-	-	-	-	-	-	-
Environmental services	-	-	-	-	-	-	-	-	-	-
Community Development	8,193	-	-	-	-	-	-	-	-	-
Miscellaneous	544	-	-	-	-	-	-	-	-	-
Total Expenditures	8,737	236	-	-	17,907	9,570	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	55,299	8,859	6,860	-	(2,660)	9,999	-	-	-	-
Other Revenues and Financing Sources (Uses)										
Transfers	-	-	-	-	-	(13,745)	-	7,598	-	-
Sources (Uses)	-	-	-	-	(13,745)	7,598	-	7,598	-	-
Net change in fund balances	55,299	8,859	6,860	-	(2,660)	(3,746)	-	7,598	-	-
Fund balances, October 1	106,387	20,455	16,922	-	23,995	25,503	(1,597)	(7,598)	3,279	400
Fund balances, September 30	\$ 161,686	\$ 29,314	\$ 23,782	\$ -	\$ 21,335	\$ 21,757	\$ (1,597)	\$ -	\$ 3,279	\$ 400

**CITY OF ROYSE CITY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Senior Center	Main Street	Police	Fire	Splash Park	Animal	Parks	Juvenile Case Management Fund	Total
REVENUES									
Taxes:									
Hotel/Motel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,036
Fines and Fees	-	-	-	-	-	-	-	10,097	26,052
Donations	-	6,490	700	4,794	-	2,234	7,787	-	22,005
Investment Income	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	34,816
Total Revenues	-	6,490	700	4,794	-	2,234	7,787	10,097	146,909
EXPENDITURES									
Current:									
Police	-	-	5,342	-	-	-	-	-	32,819
Fire Department	-	-	-	1,290	-	-	-	-	1,290
Municipal Court	-	-	-	-	-	-	-	-	236
Parks	-	-	-	-	-	-	7,787	-	7,787
Main Street	-	10,877	-	-	-	-	-	-	10,877
Environmental services	-	-	-	-	-	1,765	-	-	1,765
Community Development	-	-	-	-	-	-	-	-	8,193
Miscellaneous	-	-	-	-	-	-	-	-	544
Total Expenditures	-	10,877	5,342	1,290	-	1,765	7,787	-	63,511
Excess (deficiency) of revenues over (under) expenditures	-	(4,387)	(4,642)	3,504	-	469	-	10,097	83,398
Other Revenues and Financing Sources (Uses) Transfers									
Sources (Uses)	-	-	-	-	-	-	-	10,536	4,389
Net change in fund balances	-	(4,387)	(4,642)	3,504	-	469	-	20,633	87,787
Fund balances, October 1	1,250	4,360	8,296	6,431	-	275	-	-	208,358
Fund balances, September 30	\$ 1,250	\$ (27)	\$ 3,654	\$ 9,935	\$ -	\$ 744	\$ -	\$ 20,633	\$ 296,145

**CITY OF ROYSE CITY, TEXAS
 BALANCE SHEET
 DISCRETELY PRESENTED COMPONENT UNIT
 SEPTEMBER 30, 2012**

	<u>EDC</u>
ASSETS	
Cash and Cash Equivalents	\$ 975,455
Receivables, net	62,114
Total Assets	<u>1,037,569</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts Payable - City	<u>24,662</u>
Total Liabilities	<u>24,662</u>
Fund Balance	
Reserved for:	
Community Development	<u>1,012,907</u>
Total Fund Balance	<u>1,012,907</u>
Total Liabilities and Fund Balance	<u>\$ 1,037,569</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, 2012

	<u>EDC</u>
REVENUES	
Taxes:	
Sales	\$ 365,503
Investment Income	430
Miscellaneous	1,129
Total Revenues	<u>367,062</u>
EXPENDITURES	
Current:	
Administrative	124,771
Community Development	37,578
Total Expenditures	<u>162,349</u>
Excess (deficiency) of revenues over (under) expenditures	<u>204,713</u>
Net change in fund balance	204,713
Fund balance, October 1	808,194
Fund balance, September 30	<u><u>\$ 1,012,907</u></u>

**CITY OF ROYSE CITY, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 ECONOMIC DEVELOPMENT CORPORATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Sales	\$ 227,577	\$ 227,577	\$ 365,503	\$ 137,926
Investment Income	500	500	430	(70)
Miscellaneous	-	-	1,129	1,129
Total Revenues	<u>228,077</u>	<u>228,077</u>	<u>367,062</u>	<u>138,985</u>
EXPENDITURES				
Current:				
Administrative	139,500	139,500	124,771	14,729
Community Development	330,900	330,900	37,578	293,322
Total Expenditures	<u>470,400</u>	<u>470,400</u>	<u>162,349</u>	<u>308,051</u>
Net change in fund balance	<u>(242,323)</u>	<u>(242,323)</u>	<u>204,713</u>	<u>(169,066)</u>
Fund balance, October 1	<u>808,194</u>	<u>808,194</u>	<u>808,194</u>	
Fund balance, September 30	<u>\$ 565,871</u>	<u>\$ 565,871</u>	<u>\$ 1,012,907</u>	