

**CITY OF NATALIA, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended**  
**SEPTEMBER 30, 2012**



CITY OF NATALIA, TEXAS  
Annual Financial Report  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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**FINANCIAL SECTION**

**BEYER & Co.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**Wayne R. Beyer, C.P.A.**

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442 WEST OAKLAWN  
P.O. BOX 366 830/569-8781 FAX 830/569-6776  
PLEASANTON, TEXAS 78064

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111 NORTH ODEM  
830/569-8781 FAX 830/569-6776  
SINTON, TEXAS 78387

**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Natalia, Texas

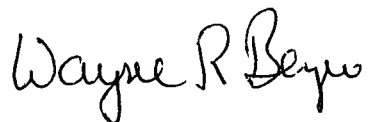
We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Natalia, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Natalia, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Natalia, Texas, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Public Employees Retirement System on pages 3 through 11 and 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Wayne R Beyer".

BEYER & COMPANY  
Certified Public Accountants  
Pleasanton, Texas  
August 2, 2013

## Management's Discussion and Analysis

As management of the City of Natalia, Texas, we offer readers of the City of Natalia, Texas's financial statements this narrative overview and analysis of the financial activities of the City of Natalia, Texas for the fiscal year ended September 30, 2012.

### Financial Highlights

- . The assets of the City of Natalia, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$2,077,458 (net assets). Of this amount, \$183,883 or 9% (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total net assets decreased by \$94,302. This decrease is mainly attributable to an absence of any capital in the 2011-2012 year. There was a \$172,889 capital grant in the prior year. The Utility fund sustained an operating loss of \$109,273 in the 2011-2012 year.
- . The City of Natalia, Texas's total debt increased by \$8,428 (4 percent) during the current fiscal year. The key factor was the acquisition of a capital lease of \$37,443.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Natalia, Texas's basic financial statements. The City of Natalia, Texas's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements:** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Natalia, Texas's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Natalia, Texas'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 of Natalia, Texas is improving or deteriorating.

The *statement for activities* presents information showing how the government's net assets changed during the most recent fiscal year. 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 this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City of Natalia, Texas that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Natalia, Texas include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Natalia, Texas include a Utility System.

The government-wide financial statements include only the City of Natalia, Texas itself (known as the *primary government*.)

The government-wide financial statements can be found on pages 13-14 for this report.

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Natalia, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All other funds of the City of Natalia, Texas can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 the 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 of Natalia, Texas maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the veteran's memorial library fund, and the NPD impound fund.

The City of Natalia, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on 15-19 of this report.

**Proprietary funds:** The City of Natalia, Texas maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Natalia, Texas uses enterprise funds to account for its Utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility operations, which is considered to be a major fund of the City of Natalia, Texas. The basic proprietary fund financial statements can be found on pages 20-24 of this report.

**Notes to the financial statements:** The notes provided 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 can be found on pages 25-42 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Natalia, Texas's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 43 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Natalia, Texas, assets exceeded liabilities by \$2,077,458 at the close of the most recent fiscal year.

A significant portion of the City of Natalia, Texas's net assets (91 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Natalia, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Natalia, Texas's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets*, \$183,883, may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF NATALIA, TEXAS  
NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Oother Assets	\$275,805	\$255,211	\$70,588	\$55,215	\$346,393	\$310,426
Restricted Assets:	62,791	4,303	61,640	40,659	124,431	44,962
Capital Assets:	393,031	409,534	1,715,627	1,835,331	2,108,658	2,244,865
Total Assets	731,627	669,048	1,847,855	1,931,205	2,579,482	2,600,253
Long-Term Liabilities	224,587	215,836	116,381	88,288	340,968	304,124
Other Liabilities (Payable from Restricted Assets)	0	0	49,729	47,785	49,729	47,785
Other Liabilities	107,974	72,908	3,353	3,676	111,327	76,584
Total Liabilities	332,561	288,744	169,463	139,749	502,024	428,493
Invested in Capital Assets, Net of Related Debt	174,588	195,998	1,715,627	1,835,331	1,890,215	2,031,329
Restricted	3,360	14,824	0	0	3,360	14,824
Unrestricted	221,118	169,482	(37,235)	(43,875)	183,883	125,607
Total Net Assets	\$399,066	\$380,304	\$1,678,392	\$1,791,456	\$2,077,458	\$2,171,760

At the end of the current fiscal year, the City of Natalia, Texas is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year. The business-type activities showed a positive balance for the Invested in Capital Assets, Net of Related debt for the current year and the prior year but showed negative balances in unrestricted net assets for both years.

There was a decrease of \$11,464 in restricted net assets reported in connection with the City of Natalia, Texas's governmental and business-type activities. This decrease is the result of an operating loss in the Impound fund in the current year.

The government's total net assets decreased by \$94,302. This decrease is mainly attributable to an absence of any capital in the 2011-2012 year. There was a \$172,889 capital grant in the prior year. The Utility fund sustained an operating loss of \$109,273 in the 2011-2012 year.

**Governmental activities:** Governmental activities increased the City of Natalia, Texas's net assets by \$18,762, thereby accounting for 100 percent of the total increase in the net assets of the City of Natalia, Texas. This increase is mainly attributable to an increase in fines (\$75,746) and ad valorem taxes (\$29,086).

**CITY OF NATALIA, TEXAS  
CHANGE IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$448,344	\$297,103	\$381,874	\$322,710	\$830,218	\$619,813
Operating Grants and Contributions	0	0			0	0
Capital Grants and Contributions	0	22,550	0	172,889	0	195,439
<b>General Revenues:</b>						
Maintenance and Operations Taxes	256,914	227,828			256,914	227,828
Sales Taxes	72,899	59,010			72,899	59,010
Franchise Taxes	39,651	42,261			39,651	42,261
Licenses and Permits	6,170	3,659			6,170	3,659
<b>Grants and Contributions not Restricted to Specific Programs</b>						
	0	985			0	985
Unrestricted Investment Earnings	20	38	0	0	20	38
Miscellaneous	236,818	261,165			236,818	261,165
<b>Total Revenue</b>	<b>1,060,816</b>	<b>914,599</b>	<b>381,874</b>	<b>495,599</b>	<b>1,442,690</b>	<b>1,410,198</b>
<b>Expenses:</b>						
General Administration	317,932	281,721			317,932	281,721
Culture and Recreation	22,567	14,433			22,567	14,433
Public Safety	471,696	364,063			471,696	364,063
Public Works	181,987	171,711			181,987	171,711
Public Transportation	38,078	10,731			38,078	10,731
Interest and Fiscal Charges	13,585	17,242			13,585	17,242
Utility			491,147	472,563	491,147	472,563
<b>Total Expenses</b>	<b>1,045,845</b>	<b>859,901</b>	<b>491,147</b>	<b>472,563</b>	<b>1,536,992</b>	<b>1,332,464</b>
<b>Increase in net assets before transfers and special items</b>	<b>14,971</b>	<b>54,698</b>	<b>(109,273)</b>	<b>23,036</b>	<b>(94,302)</b>	<b>77,734</b>
<b>Transfers</b>	<b>3,791</b>	<b>30,089</b>	<b>(3,791)</b>	<b>(30,089)</b>	<b>0</b>	<b>0</b>
<b>Increase in Net Assets</b>	<b>18,762</b>	<b>84,787</b>	<b>(113,064)</b>	<b>(7,053)</b>	<b>(94,302)</b>	<b>77,734</b>
<b>Net Assets at 09/30/2011</b>	<b>380,304</b>	<b>295,517</b>	<b>1,791,456</b>	<b>1,798,509</b>	<b>2,171,760</b>	<b>2,094,026</b>
<b>Net Assets at 09/30/2012</b>	<b>\$399,066</b>	<b>\$380,304</b>	<b>\$1,678,392</b>	<b>\$1,791,456</b>	<b>\$2,077,458</b>	<b>\$2,171,760</b>

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
<b>Primary Government</b>			
Government Activities:			
General Administration	\$317,932	\$0	\$0
Culture and Recreation	22,567		
Public Safety	471,696	229,367	
Public Works	181,987	218,977	
Public Transportation	38,078		
Interest and Fiscal Charges	13,585		
<b>Total Government Activities</b>	<b>\$1,045,845</b>	<b>\$448,344</b>	<b>\$0</b>

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$448,344	42%
Maintenance and Operations Taxes	256,914	24%
Sales Taxes	72,899	7%
Franchise Taxes	39,651	4%
Licenses and Permits	6,170	1%
Unrestricted Investment Earnings	20	0%
Miscellaneous	236,818	22%
	<b>\$1,060,816</b>	<b>100%</b>

For the most part, increases and decreases in expenses closely paralleled inflation and growth or decline in the demand for services.

**Business-type activities:** Business-type activities decreased the City of Natalia, Texas's net assets by \$113,064, accounting for 00 percent of the total increase in the government's net assets. Key elements of this decrease are as follows: This decrease is mainly attributable to an absence of any capital in the 2011-2012 year. There was a \$172,889 capital grant in the prior year. The Utility fund sustained an operating loss of \$109,273 in the 2011-2012 year.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
<b>Primary government</b>			
Business-type activities:			
Utility	\$491,147	\$381,874	\$0
Total business-type activities	\$491,147	\$381,874	\$0

Revenues by source - Business-type Activities

	REVENUES	%
Charges for Services	\$381,874	100%
	\$381,874	100%

**Financial Analysis of the Government's Funds**

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

**Governmental funds:** The focus of the City of Natalia, Texas'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 of Natalia, Texas's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Natalia, Texas's governmental funds reported combined ending fund balances of \$37,297, an increase of \$25,508 in comparison with the prior year. Approximately 00% of this total amount (a minus \$7,039) constitutes *unassigned fund balance*, which is available for spending at the government's discretion

The general fund is the chief operating fund of the City of Natalia, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,227, while total fund balance reached \$43,208. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned, undesignated fund balance represents 0 percent of total general fund expenditures, while total fund balance represents 5 percent of that same amount.

The fund balance of the City of Natalia, Texas's general fund increased by \$46,243 during the current fiscal year. This increase is mainly attributable to fines increasing by \$75,746.

At the end of the current fiscal year the restricted fund balance of the NPD Impound fund was \$00, while total fund balance reached a minus \$9,266. As a measure of the NPD Impound fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 0 percent of total NPD Impound fund expenditures, while total fund balance represents 0 percent of that same amount.

The fund balance of the City of Natalia, Texas's NPD Impound fund decreased by \$23,819 during the current fiscal year. Key factor in this decrease is as follows: Wages and equipment expenditures increasing.

At the end of the current fiscal year the restricted fund balance of the veteran's memorial library fund was \$3,355, while total fund balance reached \$3,355. As a measure of the veteran's memorial library fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 15 percent of total veteran's memorial library fund expenditures, while total fund balance represents 15 percent of that same amount.

The fund balance of the City of Natalia, Texas's veteran's memorial library fund increased by \$3,084 during the current fiscal year. Key factor in this increase is as follows: this increase is immaterial.

***Proprietary funds:*** The City of Natalia, Texas's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund at the end of the year amounted to a minus \$37,235. The total decrease in net assets for the Utility Fund was \$113,064. Key factors in this overall decline are examined above.

### **General Fund Budgetary Highlights**

During the year there was an increase of appropriations between the original and final amended budget for the general fund of \$77,738. A major portion of the increase was in the police department which increased by \$38,400, The overall budgeted expenditures were \$761,070 while the actual expenditures were \$781,885 thus resulting in a budget overage of \$20,815. The police department actual expenditures of \$202,181 exceeded the final amended budget amount of \$192,161 by \$10,020. There was no budgeted amounts for either the NPD Impound fund or the Veterans Memorial Library fund.

## Capital Asset and Debt Administration

**Capital assets:** The City of Natalia, Texas's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$2,108,658 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Natalia, Texas's investment in capital assets for the current fiscal year was \$136,207 or 6 percent (a 4 percent decrease for governmental activities and a 7 percent decrease for business-type activities).

Major capital asset events during the current fiscal year included the following: None.

### City of Natalia, Texas's Capital Assets (Net of depreciation)

**CITY OF NATALIA, TEXAS**  
**CAPITAL ASSETS (net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$16,902	\$16,902	\$15,570	\$13,320	\$32,472	\$30,222
Building and improvements	255,942	268,752	53,852	50,108	309,794	318,860
Intangible	35,571	0	0	0	35,571	0
Machinery and equipment	84,616	123,880	2,436	3,654	87,052	127,534
Infrastructure	0	0	0	0	0	0
Distribution System	0	0	1,643,769	1,768,249	1,643,769	1,768,249
<b>Total</b>	<b>\$393,031</b>	<b>\$409,534</b>	<b>\$1,715,627</b>	<b>\$1,835,331</b>	<b>\$2,108,658</b>	<b>\$2,244,865</b>

Additional information of the City of Natalia, Texas's capital assets can be found in note IV.C on pages 36-37 of this report.



**Long-term debt:** At the end of the current fiscal year, the City of Natalia, Texas had the following outstanding bonded debt.

**City of Natalia, Texas’s Outstanding Bonded Debt**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
Tax Notes	\$200,000	\$0	\$35,000	\$165,000	\$40,000	\$125,000
	<u>200,000</u>	<u>0</u>	<u>35,000</u>	<u>165,000</u>	<u>40,000</u>	<u>125,000</u>
 Grand Total	 <u>\$200,000</u>	 <u>\$0</u>	 <u>\$35,000</u>	 <u>\$165,000</u>	 <u>\$40,000</u>	 <u>\$125,000</u>

The City of Natalia, Texas’s total bonded debt decreased by \$35,000 during the current fiscal year. This was a result of a bond payment of \$35,000.

Additional information on the City of Natalia, Texas’s long-term debt can be found in note IV.F on pages 38-39 of this report.

**Economic Factors**

The City currently has a Loves Truck Stop that is being built along IH 35. This is projected to generate additional sales taxes for the City.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Natalia, Texas’s finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 270, Natalia, Texas, 78059.



**BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF NATALIA, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$73,170	\$14,125	\$87,295
Receivables (net of allowance for uncollectibles)	198,635	56,463	255,098
Unamortized Tax Note Issuance Costs	4,000		4,000
Restricted Assets:			
Cash and Cash Equivalents	62,791	61,640	124,431
Capital Assets Not Being Depreciated:			
Land	16,902	15,570	32,472
Total Capital Assets Being Depreciated, Net			
Building and Improvements	255,942	53,852	309,794
Intangible	35,571		35,571
Machinery and Equipment	84,616	2,436	87,052
Distribution System		1,643,769	1,643,769
<b>Total Assets</b>	<b>\$731,627</b>	<b>\$1,847,855</b>	<b>\$2,579,482</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$99,834	\$76,815	\$176,649
Accrued Wages	3,558	1,066	4,624
Interest Payable	4,582		4,582
Customer Deposits		38,500	38,500
Consumer Meter Deposit		49,729	49,729
Noncurrent Liabilities:			
Due Within One Year	70,873	3,353	74,226
Due in More Than One Year	153,714		153,714
<b>Total Liabilities</b>	<b>332,561</b>	<b>169,463</b>	<b>502,024</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	174,588	1,715,627	1,890,215
Restricted			
Culture and Recreation - Library	3,355		3,355
Debt Service	5		5
Unrestricted	221,118	(37,235)	183,883
<b>Total Net Assets</b>	<b>\$399,066</b>	<b>\$1,678,392</b>	<b>\$2,077,458</b>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary Government</b>						
Government Activities:						
General Administration	\$317,932	\$0	\$0	(\$317,932)		(\$317,932)
Culture and Recreation	22,567			(22,567)		(22,567)
Public Safety	471,696	229,367		(242,329)		(242,329)
Public Works	181,987	218,977		36,990		36,990
Public Transportation	38,078			(38,078)		(38,078)
Interest and Fiscal Charges	13,585			(13,585)		(13,585)
Total Government Activities	<u>1,045,845</u>	<u>448,344</u>	<u>0</u>	<u>(597,501)</u>	<u>0</u>	<u>(597,501)</u>
Business-Type Activities:						
Utility	491,147	381,874			(109,273)	(109,273)
Total Business-Type Activities	<u>491,147</u>	<u>381,874</u>	<u>0</u>	<u>0</u>	<u>(109,273)</u>	<u>(109,273)</u>
Total Primary Government	<u>\$1,536,992</u>	<u>\$830,218</u>	<u>\$0</u>	<u>(597,501)</u>	<u>(109,273)</u>	<u>(706,774)</u>
General Revenues						
Property Taxes, Levies for General Purposes				256,914		256,914
Sales Taxes				72,899		72,899
Franchise Taxes				39,651		39,651
Licenses and Permits				6,170		6,170
Unrestricted Investment Earnings				20		20
Miscellaneous				236,818		236,818
Transfers				3,791	(3,791)	0
Total General Revenues and Transfers				<u>616,263</u>	<u>(3,791)</u>	<u>612,472</u>
Change in Net Assets				18,762	(113,064)	(94,302)
Net Assets - Beginning				380,304	1,791,456	2,171,760
Net Assets - Ending				<u>\$399,066</u>	<u>\$1,678,392</u>	<u>\$2,077,458</u>

The accompanying notes are an integral part of this statement.





**FUND FINANCIAL STATEMENTS**

CITY OF NATALIA, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

	General Fund	NPD Impound Fund	Veterans Memorial Library Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$42,834	\$30,336		\$73,170
Receivables (net of allowance for uncollectibles)	87,121			87,121
Due from Other Funds	33,219			33,219
Restricted Assets:				
Cash and Cash Equivalents	50,472		12,319	62,791
<b>Total Assets</b>	<b>\$213,646</b>	<b>\$30,336</b>	<b>\$12,319</b>	<b>\$256,301</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
Accounts Payable	\$86,013	\$9,596	\$4,225	\$99,834
Due to Other Funds		30,006	3,213	33,219
Accrued Wages	2,032		1,526	3,558
Unearned Revenues	82,393			82,393
<b>Total Liabilities</b>	<b>170,438</b>	<b>39,602</b>	<b>8,964</b>	<b>219,004</b>
<b>Fund Balances:</b>				
Nonspendable				
Due from Others	33,219			33,219
Restricted				
Culture and Recreation - Library			3,355	3,355
Debt Service	5			5
Committed				
Centennial	7,577			7,577
Christmas for Kids	180			180
Unassigned	2,227	(9,266)		(7,039)
<b>Total Fund Balance</b>	<b>43,208</b>	<b>(9,266)</b>	<b>3,355</b>	<b>37,297</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$213,646</b>	<b>\$30,336</b>	<b>\$12,319</b>	<b>\$256,301</b>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2012

Total Fund Balances - governmental funds balance sheet \$37,297

Amounts reported for governmental activities in the statement of net assets  
 ("SNA") are different because:

Capital assets used in governmental activities are not reported in the funds.	393,031
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	82,393
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	111,514
Tax Note Issuance Costs are expenditures in the funds but are recorded as assets in the governmental activities.	4,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(229,169)

Net assets of governmental activities - statement of net assets	\$399,066
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The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2012

	General Fund	NPD Impound Fund	Veterans Memorial Library Fund	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Property	\$256,241			\$256,241
Sales	72,899			72,899
Franchise	39,651			39,651
Licenses and Permits	6,170			6,170
Charges for Services	218,977			218,977
Fines and Forfeitures	210,504			210,504
Interest		20		20
Miscellaneous	19,895	191,272	25,651	236,818
Total Revenues	<u>824,337</u>	<u>191,292</u>	<u>25,651</u>	<u>1,041,280</u>
<b>EXPENDITURES</b>				
Current:				
General Administration	303,567			303,567
Culture and Recreation			22,567	22,567
Public Safety	250,770	214,944		465,714
Public Works	181,987			181,987
Public Transportation	38,078			38,078
Debt Service				
Principal Retirement	35,000	9,000		44,000
Interest Retirement	12,390	167		12,557
Total Expenditures	<u>821,792</u>	<u>224,111</u>	<u>22,567</u>	<u>1,068,470</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,545</u>	<u>(32,819)</u>	<u>3,084</u>	<u>(27,190)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Other Financing Sources - Notes Payable	2,464	9,000		11,464
Other Financing Sources - Capital Leases	37,443			37,443
Operating Transfers In	3,791			3,791
Total Other Financing Sources (Uses)	<u>43,698</u>	<u>9,000</u>	<u>0</u>	<u>52,698</u>
Net Changes in Fund Balances	<u>46,243</u>	<u>(23,819)</u>	<u>3,084</u>	<u>25,508</u>
Fund Balances - Beginning	<u>(3,035)</u>	<u>14,553</u>	<u>271</u>	<u>11,789</u>
Fund Balances - Ending	<u>\$43,208</u>	<u>(\$9,266)</u>	<u>\$3,355</u>	<u>\$37,297</u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 SEPTEMBER 30, 2012

Net Changes in Fund Balances - total governmental funds \$25,508

Amounts reported for governmental activities in the statement of net assets  
 ("SNA") are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(16,503)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	673
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	18,863
Bond Issuance Costs and Premiums is an expense in the funds but not an expense in the SOA.	(2,000)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	(48,907)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	44,000
(Increase) decrease in Compensated Absences Payable from beginning of period to end of period.	(3,844)
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	972
Change in net assets of governmental activities - statement of activities	<u><u>\$18,762</u></u>

The accompanying notes are an integral part of this statement.



CITY OF NATALIA, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget -
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes				
Property	\$259,050	\$262,050	\$256,241	(\$5,809)
Sales	57,000	62,000	72,899	10,899
Franchise	33,000	33,000	39,651	6,651
Licenses and Permits	0	0	6,170	6,170
Charges for Services	218,273	218,273	218,977	704
Fines and Forfeitures	126,000	194,000	210,504	16,504
Miscellaneous	1,800	800	19,895	19,095
Total Revenues	<u>695,123</u>	<u>770,123</u>	<u>824,337</u>	<u>54,214</u>
<b>EXPENDITURES</b>				
Current:				
General Administration				
General Administration	311,822	351,084	303,567	47,517
Public Safety				
Animal Control	7,360	1,105	476	629
Police	153,761	192,161	202,181	(10,020)
Municipal Court	7,500	9,500	8,206	1,294
Public Works				
Sanitation	177,682	182,220	181,987	233
Public Transportation				
Streets	25,207	25,000	38,078	(13,078)
Debt Service				
Principal Retirement			35,000	(35,000)
Interest Retirement			12,390	(12,390)
Total Expenditures	<u>683,332</u>	<u>761,070</u>	<u>781,885</u>	<u>(20,815)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,791</u>	<u>9,053</u>	<u>42,452</u>	<u>33,399</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	0	0	3,791	3,791
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>3,791</u>	<u>3,791</u>
Net Changes in Fund Balances - Budgetary Basis	<u>\$11,791</u>	<u>\$9,053</u>	<u>46,243</u>	<u>\$37,190</u>

Reconciliation from cash basis to modified accrual basis:	
Other Financing Source - Capital Lease/Notes Payable	39,907
Purchase of Equipment	(39,907)
Net Changes in Fund Balances - Modified Accrual Basis	<u>46,243</u>
Fund Balances - Beginning	<u>(3,035)</u>
Fund Balances - Ending	<u>\$43,208</u>

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

CITY OF NATALIA, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$14,125	\$0	\$14,125
Accounts Receivables (net of allowance for uncollectibles)	56,463	55,215	56,463
<b>Total Current Assets</b>	<b>70,588</b>	<b>55,215</b>	<b>70,588</b>
Noncurrent Assets			
Restricted Assets:			
Cash and Cash Equivalents - Debt Service	11,911	3,001	11,911
Cash and Cash Equivalents - Water Meters	49,729	37,658	49,729
<b>Total Restricted Assets</b>	<b>61,640</b>	<b>40,659</b>	<b>61,640</b>
Capital Assets			
Land	15,570	13,320	15,570
Buildings and Improvements	62,734	57,668	62,734
Machinery and Equipment	68,457	68,457	68,457
Distribution System	4,766,713	4,759,090	4,766,713
<b>Total Capital Assets</b>	<b>4,913,474</b>	<b>4,898,535</b>	<b>4,913,474</b>
Less Accumulated Depreciation			
<b>Total Capital Assets (net of accumulated depreciation)</b>	<b>(3,197,847)</b>	<b>(3,063,204)</b>	<b>(3,197,847)</b>
<b>Total Noncurrent Assets</b>	<b>1,715,627</b>	<b>1,835,331</b>	<b>1,715,627</b>
<b>TOTAL ASSETS</b>	<b>\$1,847,855</b>	<b>\$1,931,205</b>	<b>\$1,847,855</b>

(continued)



(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$76,815	\$87,238	\$76,815
Accrued Wages	1,066	1,050	1,066
Compensated Absences	3,353	3,676	3,353
Consumer Deposit	38,500	0	38,500
Total Current Liabilities (Payable from Current Assets)	<u>119,734</u>	<u>91,964</u>	<u>119,734</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	49,729	47,785	49,729
Total Current Liabilities Payable from Restricted Assets	<u>49,729</u>	<u>47,785</u>	<u>49,729</u>
Total Liabilities	<u>169,463</u>	<u>139,749</u>	<u>169,463</u>
Invested in Capital Assets, Net of Related Debt	1,715,627	1,835,331	1,715,627
Unrestricted	(37,235)	(43,875)	(37,235)
Total Net Assets	<u>\$1,678,392</u>	<u>\$1,791,456</u>	<u>\$1,678,392</u>

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



CITY OF NATALIA, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services (Water and Sewer)	\$360,004	\$309,450	\$360,004
Miscellaneous	21,870	13,260	21,870
Total Operating Revenues	<u>381,874</u>	<u>322,710</u>	<u>381,874</u>
OPERATING EXPENSES:			
Personal Services	155,237	151,492	155,237
Supplies	27,016	21,544	27,016
Other Services and Charges	174,251	162,894	174,251
Depreciation	134,643	136,633	134,643
Total Operating Expenses	<u>491,147</u>	<u>472,563</u>	<u>491,147</u>
Operating Income (Loss)	<u>(109,273)</u>	<u>(149,853)</u>	<u>(109,273)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	0	0	0
Intergovernmental	0	172,889	0
Total Non-Operating Revenues (Expenses)	<u>0</u>	<u>172,889</u>	<u>0</u>
Income Before Contributions and Transfers	(109,273)	23,036	(109,273)
Transfers In (Out) - Net	<u>(3,791)</u>	<u>(30,089)</u>	<u>(3,791)</u>
Change in Net Assets	(113,064)	(7,053)	(113,064)
Total Net Assets - Beginning	1,791,456	1,798,509	1,791,456
Total Net Assets - Ending	<u>\$1,678,392</u>	<u>\$1,791,456</u>	<u>\$1,678,392</u>

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

CITY OF NATALIA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$421,070	\$361,562	\$421,070
Payments to Suppliers	(211,690)	(180,010)	(211,690)
Payments to Employees	(155,544)	(150,963)	(155,544)
Net Cash Provided (Used) by Operating Activities	53,836	30,589	53,836
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	(3,791)	(30,089)	(3,791)
Intergovernmental	0	172,889	0
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(3,791)	142,800	(3,791)
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	0	0	0
Purchases of Capital Assets	(14,939)	(172,889)	(14,939)
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,939)	(172,889)	(14,939)
Cash Flows from Investing Activities			
Interest Received	0	0	0
Net Cash Provided (Used) by Investment Activities	0	0	0
Net Increase (Decrease) in Cash Equivalents	35,106	500	35,106
Cash and Cash Equivalents at Beginning of Year	40,659	40,159	40,659
Cash and Cash Equivalents at End of Year	\$75,765	\$40,659	\$75,765
Restricted Cash	\$61,640	\$40,659	\$61,640
Unrestricted Cash	14,125	0	14,125
	\$75,765	\$40,659	\$75,765

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	(\$109,273)	(\$149,853)	(\$109,273)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	134,643	136,633	134,643
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	(1,248)	36,502	(1,248)
Increase (Decrease) in Accounts Payable	(10,423)	4,428	(10,423)
Increase (Decrease) in Accrued Wages	16	578	16
Increase (Decrease) in Compensated Absences	(323)	(49)	(323)
Increase (Decrease) in Consumer Deposits	38,500	0	38,500
Increase (Decrease) in Consumer Meter Deposits	1,944	2,350	1,944
			0
Net Cash Provided (Used) By Operating Activities	<u>\$53,836</u>	<u>\$30,589</u>	<u>\$53,836</u>
Noncash Investing, Capital, and Financing Activities:			
Federal Grant	\$0	\$172,889	\$0
	<u>\$0</u>	<u>\$172,889</u>	<u>\$0</u>

Note: The above funds are all Enterprise Funds.

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

CITY OF NATALIA, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

I. Summary of significant accounting policies

A. Reporting entity

The City of Natalia, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Natalia, Texas, (the City) conform to generally accepted accounting principles generally accepted in the United States of America. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government'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 NPD Impound fund is used to collect monies from impounding vehicles to be used for law enforcement purposes.

The veteran's memorial library fund is used to collect monies for the operation of the city library.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water and sewer operations.

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Under the full accrual method of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting that were issued on or before November 30, 1989, for its proprietary operations except for those that conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.



**D. Assets, liabilities, and net assets or equity**

**1. Deposits and investments**

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The current trade accounts receivable allowance is equal to 1 percent, the trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2012. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2012, and 10 percent of delinquent outstanding property taxes at September 30, 2012.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

**3. Inventories and prepaid items**

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2012.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were no prepaid items at September 30, 2012.

4. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by applicable contract covenants.

The restricted assets consist of the following cash items:

	Governmental Activities	Business-type Activities	Total
Restricted for:			
Contingency	\$42,710	\$0	\$42,710
Meters		49,729	49,729
Centennial	7,577		7,577
Debt Service	5	11,911	11,916
Library	12,319		12,319
Christmas	180		180
<b>Total</b>	<b>\$62,791</b>	<b>\$61,640</b>	<b>\$124,431</b>

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. The City had no projects during the 2011-2012 year.

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

<b>Asset</b>	<b>Years</b>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

7. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund Balances – Governmental Funds

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

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

*Unassigned* — all other spendable amounts.

As of September 30, 2012, fund balances are composed of the following:

Fund Balances:	
Nonspendable	
Due from Others	\$33,219
Restricted	
Culture and Recreation - Library	3,355
Debt Service	5
Committed	
Centennial	7,577
Christmas for Kids	180
Unassigned	(7,039)
Total Fund Balance	<u>\$37,297</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as

needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions. In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 percent of the subsequent year's budgeted General Fund expenditures.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$229,169 difference are as follows:

Compensated Absences	\$6,144
Interest Payable	4,582
Tax Notes	165,000
Capital Lease	37,443
Notes Payable	16,000
	<u>\$229,169</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$82,393 difference are as follows:

Property Taxes Receivable	\$89,134
Allowance for Doubtful Accounts	<u>(6,741)</u>
Net	<u>\$82,393</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$393,031 difference are as follows:

Capital assets not being depreciated	\$16,902
Capital assets being depreciated	925,308
Depreciation expense	(549,179)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$393,031</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$111,514 difference are as follows:

Fines and Fees Receivable	\$302,993
Allowance for Doubtful Accounts	<u>(191,479)</u>
Net	<u>\$111,514</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$16,503 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$0
Capital Outlay - Additions - Being Depreciated	59,473
Capital Outlay - Deletions	(7,680)
Depreciation Expense	(68,296)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u><u>(\$16,503)</u></u>

### III. Stewardship, compliance, and accountability

#### A. Budgetary information

The City Manager has been authorized by the council to prepare the budget. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Manager is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

#### B. Excess of expenditures over appropriations

For the year ended September 30, 2012, excess of expenditures over appropriations occurred in the general fund whereby actual expenditures of \$781,885 exceeded budgeted expenditures of \$761,070 by \$20,815.

#### C. Deficit fund equity

The City did not have a deficit fund balance as of September 30, 2012 except for the NPD Impound fund which had a deficit fund balance of \$9,266. This deficit is expected to be liquidated by future resource of this fund.

#### IV. Detailed notes on all funds

##### A. Deposits and investments

###### Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is not in compliance with the requirements of the Act and with local policies.

###### Policies Governing Deposits and Investments

The City has not adopted a deposit policy but has adopted an investment policy. That City does address the following risks:

**Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or collateral held by the government's agent in the government's name. The total amount of cash in the bank at September 30, 2012 is \$208,719 while the total pledged securities are \$-0- and the FDIC insurance coverage is \$250,000. The book balance was \$99,577. As of September 30, 2012, the city had no investments.

B. Receivables

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

	General	Utility	Total
<u>Receivables</u>			
Taxes	\$89,134	\$71,224	\$160,358
Charges for Services			0
Fines	302,993		302,993
Other	4,728		4,728
Gross receivables	396,855	71,224	468,079
Less: Allowance for uncollectibles	198,220	14,761	212,981
Net total receivables	<u>\$198,635</u>	<u>\$56,463</u>	<u>\$255,098</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are 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. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>
Delinquent Property Taxes Receivable (General Fund)-Net	\$ 82,393	
Cash seizures	<u>          </u>	<u>\$ -0-</u>
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 82,393</u>	<u>\$ -0-</u>



C. Capital assets

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

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$16,902			\$16,902
Total capital assets not being depreciated	16,902	0	0	16,902
Capital assets being depreciated:				
Building and improvements	312,112			312,112
Intangible	38,881	37,443		76,324
Machinery and equipment	271,192	22,030	9,600	283,622
Infrastructure	253,250			253,250
Total capital assets being depreciated	875,435	59,473	9,600	925,308
Less accumulated depreciation for:				
Building and improvements	43,360	12,810		56,170
Intangible	38,881	1,872		40,753
Machinery and equipment	147,312	53,614	1,920	199,006
Infrastructure	253,250	0		253,250
Total accumulated depreciation	482,803	68,296	1,920	549,179
Total Capital assets being depreciated, net	392,632	(8,823)	7,680	376,129
Governmental activities capital assets, net	\$409,534	(\$8,823)	\$7,680	\$393,031

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$13,320	\$2,250		\$15,570
Total capital assets not being depreciated	13,320	2,250	0	15,570
Capital assets being depreciated:				
Building and improvements	57,668	5,066		62,734
Machinery and equipment	68,457			68,457
Distribution System	4,759,090	7,623		4,766,713
Total capital assets being depreciated	4,885,215	12,689	0	4,897,904
Less accumulated depreciation for:				
Building and improvements	7,560	1,322		8,882
Machinery and equipment	64,803	1,218		66,021
Distribution System	2,990,841	132,103		3,122,944
Total accumulated depreciation	3,063,204	134,643	0	3,197,847
Total Capital assets being depreciated, net	1,822,011	(121,954)	0	1,700,057
Business-type activities capital assets, net	\$1,835,331	(\$119,704)	\$0	\$1,715,627

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

Governmental activities	
General Administration	\$12,810
Public Safety	<u>55,486</u>
Total depreciation expense - governmental activities	<u>\$68,296</u>
Business-type activities	
Utility	<u>\$134,643</u>
Total depreciation expense - Business-type activities	<u>\$134,643</u>

Construction commitments: The City had no projects during the 2011-2012 year.

D. Interfund receivables, payables, and transfers

The City had a due to General fund from the NPD Impound fund for \$30,006 at September 30, 2012. This was for payroll facilitation on behalf of the Impound fund. This amount is expected to be repaid within the next fiscal year.

The City had a due to General fund from the Veterans Memorial Library fund for \$3,213 at September 30, 2012. This was for operating funds. This amount is expected to be repaid within the next fiscal year.

The City had a transfer of \$3,793 from the Utility fund to the General fund for the year ended September 30, 2012. This transfer was for operating capital and is non-recurring.

E. Leases

The City had no operating leases at September 30, 2012.

F. Long-term debt

Tax Notes

The government issues tax notes to provide funds for the acquisition and construction of major capital facilities. Tax Notes have been issued for governmental activities. The original amount of the tax notes issued in the 2008-2009 year was \$200,000.

Tax notes are direct obligations and pledge the full faith and credit of the government. Tax notes outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	6.0	\$ 165,000

The general fund is used to service the tax notes.

Annual debt service requirements to maturity for the Certificates of Obligation bonds and Revenue bonds are as follows:

Year Ending September 30,	<u>Governmental activities:</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$40,000	\$9,900
2014	40,000	7,500
2015	40,000	5,100
2016	45,000	2,700
TOTALS	<u>\$165,000</u>	<u>\$25,200</u>

Capital Leases

The Capital Leases consists of one COPSUNC computer system for the police department Governmental Fund Capital Assets at \$37,443. The debt will be serviced by the General Fund. The accumulated depreciation of the above equipment is \$1,872. The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2012.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows:

<u>YEAR</u>	<u>Governmental Activities Amount</u>
2013	\$10,557
2014	10,557
2015	10,557
2016	10,557
Total Minimum Lease Payments	<u>42,228</u>
Less: Amount Representing Interest	<u>4,785</u>
Present Value of Net Minimum Lease Payments	<u>\$37,443</u>

The general fund is used to service the capital leases.

## Notes Payable

The City acquired a notes payable on July 31, 2012 for \$16,000 from the Security State Bank. The loan is to be paid off on July 31, 2013 including interest at 5.5%. This note was processed in the general fund and was used to pay off prior notes. The rate of interest is 5.5%. The current balance of the note at September 30, 2012 is \$16,000.

### Changes in long-term liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<b>Business-type activities:</b>						
Compensated Absences	\$3,676	\$3,353	\$3,676	\$3,353	\$3,353	\$0
	3,676	3,353	3,676	3,353	3,353	0
<b>Governmental activities:</b>						
Notes Payable	13,536	2,464		16,000	16,000	0
Capital Lease	0	37,443		37,443	8,729	28,714
Tax Notes	200,000		35,000	165,000	40,000	125,000
Compensated Absences	2,300	6,144	2,300	6,144	6,144	0
	215,836	46,051	37,300	224,587	70,873	153,714
<b>Grand Total</b>	<b>\$219,512</b>	<b>\$49,404</b>	<b>\$40,976</b>	<b>\$227,940</b>	<b>\$74,226</b>	<b>\$153,714</b>

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2013 year is \$9,497.

The general fund and the Impound fund are to be used to service the notes payable. The estimated amount due in the 2012-2013 year is \$16,000.

The government-wide statement of activities includes \$74,226 as "noncurrent liabilities, due within one year".

The total amount of interest expensed in 2011-2012 is \$13,585. There was no interest capitalized in capital assets.

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no instances where settlements exceeded insurance coverage in any of the three previous years.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

	Year ended <u>09/30/11</u>	Year ended <u>09/30/12</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

B. Related party transaction

There were no related party transactions during the year.

C. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The government is not a defendant in any lawsuit.

D. Subsequent events

On May 20, 2013 the City learned that it had come in first for the TXCDBG Grant Award which is for \$275,000 to be used to upgrade the sewer plant.

E. Other Post Employment Benefits

The City had no Other Post Employment Benefits at September 30, 2012.

F. Pension Plan

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://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	5.00%	5.00%
MATCHING RATIO (city to employee)	1 to 1	1 to 1
YEARS REQUIRED FOR VESTING	5	5
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
UPDATED SERVICE CREDIT	0%	0%
ANNUITY INCREASE (to retirees)	00% of CPI	00% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial Method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and the 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 as the basis for the rate and the calendar year when the rate goes into effect.

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09-30-10	16,264	100%	-0-
09-30-11	13,871	100%	-0-
09-30-12	8,598	100%	-0-

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 valuation, December 31, 2011, also follows:

VALUATION DATE	12/31/2009	12/31/2010	12/31/2011
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 EQUIVALENT SINGLE	23.5 years; closed period	22.6 years; closed period	21.3 years; closed period
ASSET VALUATION METHOD	10 Year Smoothed Mkt.	10 Year Smoothed Mkt.	10 Year Smoothed Mkt.
AMORTIZATION PERIOD	Closed Period	Closed Period	Closed Period
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.5%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
COST-OF-LIVING ADJUSTMENTS	0.0	0.0%	0.0%
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	25 years	16 years	18 years

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2011	\$107,776	\$170,702	\$62,926	63.1%	\$390,301	16.1%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.





**REQUIRED SUPPLEMENTARY INFORMATION**



Required Supplementary Information

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Accrued Liability (AAL) (b)	Annual Ratio (a/b)	Funded AAL (UAAL) (b-a)	UAAL as a Covered Payroll (c)	Percentage of Payroll ((b-a)/c)
12/31/2009	\$39,495	\$85,385	\$45,890	46.3%	\$375,687	12.2%
12/31/2010	\$77,609	\$142,350	\$64,741	54.5%	\$443,232	14.6%
12/31/2011	\$107,776	\$170,702	\$62,926	63.1%	\$390,301	16.1%

**Funded Status and funding Progress** – In June, 2012, SB was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial study that was adopted by the TMRS Board at their May, 2012 meeting (the review compared actual to expected experience for the four year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please refer to the December 31, 2010 TMRS Comprehensive Annual financial Report (CAFR).

