

Agreement: "Agreement" means this Wholesale Water Service Agreement.

Annual Allotment: "Annual Allotment" means the quantity of treated water allotted to Purchaser on a yearly basis from January 1st through December 31st of each year.

City Water System: "City Water System" means the water supply, treatment, pumping, storage, transmission and distribution system now owned or to be acquired by the City and any expansions, improvements, enlargements, additions and replacements thereto that are used or useful in the treatment of wholesale water sold by the City pursuant to this Agreement.

Commission: "Commission" means the Texas Commission on Environmental Quality or its successors.

Delivery Point(s): "Delivery Point or Delivery Points" means and refers to the points of delivery where the City delivers the wholesale water supply purchased pursuant to this Agreement to Purchaser.

Minimum Payment Obligation: "Minimum Payment Obligation" means Purchaser's minimum annual payment obligation to the City, as more particularly described herein.

Party or Parties: The City and Purchaser are sometimes referred to in this Agreement individually as a "Party" and collectively as the "Parties."

Purchaser Water System: "Purchaser Water System" means the retail water transmission, storage and distribution system now owned or to be acquired by Purchaser and any expansions, improvements, enlargements, additions and replacements thereto.

Water Conservation Plan: "Water Conservation Plan" shall mean and refer to the Water Conservation Plan adopted by the City Council.

Wholesale Water Rate: "Wholesale Water Rate" means the wholesale water rate to be paid by Purchaser to the City for all water delivered under this Agreement.

Wholesale Water Rate Template: "Wholesale Water Rate Template" means and refers to the McClain Water Rate Study or other rate template established by the City for the calculation of the wholesale water rate.

SRA: "SRA" means and refers to the Sabine River Authority of Texas, its successors and assigns.

ARTICLE II

Supply of Water

Section 2.1 Maximum Volume and Rate of Flow. The City agrees to furnish the Purchaser at the Delivery Points potable water at such quantity as may be required by Purchaser,

not to exceed 300,000,000 gallons per year. The maximum daily rate of delivery of water shall not exceed 820,000 gallons per day. The maximum gallons per minute shall not exceed 1,424 gallons per minute. The City's commitment to provide water to Purchaser shall be subject to: (i) the available capacity of the City Water System; and (ii) limited by the available delivery of water from the sources of the City. Purchaser specifically agrees that if the City's water supply sources curtail the amount of water available to the City, then the City may limit the supply of water to be made available to Purchaser under this Agreement, prorated on the basis of curtailment.

Section 2.2 Annual Allotment. Purchaser agrees that the initial Annual Allotment of potable water to be supplied to Purchaser pursuant to this Agreement shall be Fifty Million (50,000,000) gallons per year. Purchaser may increase the Annual Allotment at any time by written agreement between the parties to be effective January 1st of the next calendar year. The Annual Allotment may only be decreased one (1) time within the first three (3) years from the effective date of this Agreement. The Annual Allotment will be used to calculate Purchaser's Minimum Payment Obligation as set forth herein below.

Section 2.3 Water Quality. The water delivered to the point of delivery by the City to Purchaser under this Agreement shall be potable water meeting or exceeding the requirements mandated by the Commission or other governmental entity regulating water for human consumption and other domestic uses.

Section 2.4 Backflow Prevention. Purchaser shall install such backflow prevention devices, if any, as are deemed reasonably necessary for the protection of the public water supply by the City, the Commission, the Texas Department of Health, or other regulatory authority.

Section 2.5 Curtailment and Conservation Restrictions. The delivery of potable water to the Purchaser is subject to and limited by the City's available system supply and system treatment and transportation capabilities. The City shall have the right to curtail or ration the volume of wholesale water provided to Purchaser in accordance with the City's conservation plan or drought contingency plan. The Purchaser agrees to impose on its customers and enforce all voluntary and mandatory conservation and use restrictions imposed by the City on its retail customers. Purchaser's Minimum Payment Obligation shall be reduced by the amount of water not purchased during the period of curtailment, calculated by taking the difference of the volume purchased during the equivalent period the preceding year and the volume purchased during the curtailment.

Section 2.6 Water Conservation Plans. Purchaser shall comply with all requirements of the City's water conservation plan. Purchaser must implement all water conservation measures as required by the City. Purchaser shall prepare and implement a water conservation plan or water conservation measures, as well as implementing any water conservation plans and drought contingency plans adopted or approved by the City or approved by the Commission, the Texas Water Development Board, or any local, state, or federal regulatory authority with power to require or approve water conservation and drought contingency plans. Upon execution of this

Agreement, Purchaser shall submit a water conservation plan or water conservation measures to the City for its review and approval.

Section 2.7 Curtailment of Service for Maintenance or Emergency Operations. The City shall have the right at all times to curtail water service hereunder in the event of a required maintenance operation, replacement of equipment, or emergency for a reasonable period necessary to complete such maintenance or replacement operations, complete emergency repairs, or otherwise respond to emergency conditions. In the event of curtailment, Purchaser's Minimum Payment Obligation shall be reduced as set forth in Section 2.5.

Section 2.8 Cooperation During Maintenance or Emergency. Purchaser shall cooperate with the City during periods of emergency or required maintenance or replacement of equipment and, if necessary, the Purchaser shall, at its sole expense, discontinue, cycle, test, inspect, or otherwise operate and maintain its pumps or other facilities in a manner determined necessary by the City to the safe and efficient completion of such operations.

Section 2.9 Service Area Limitation. Purchaser shall not provide new services or sell water to new customers within the City's municipal boundaries or any land or customers included within the boundaries of a certificate of convenience and necessity held by the City. In turn the City shall not provide new services or sell water to new customers within the Purchaser's municipal boundaries or any land or customers included within the boundaries of a certificate of convenience and necessity held by the Purchaser. Purchaser and its successors, shall not prohibit the City from providing water service and selling water in any areas hereinafter annexed by the City or new boundaries in which the City obtains a certificate of convenience and necessity.

Section 2.10 Limitation of Use. The water made available under this Agreement by the City to Purchaser shall be utilized by Purchaser only for the provision of retail water service. Further, Purchaser shall not utilize any of the water made available under this Agreement to supply other retail or wholesale providers. This limitation may only be amended upon written Agreement of the City.

ARTICLE III Delivery Points

Section 3.1 Delivery Points. The City shall make available the supply of water purchased hereunder at the Delivery Points as agreed upon. The Parties agree that the initial Delivery Point where the City will deliver water to Purchaser pursuant to this Agreement shall be located 360 feet East of the City of Emory Water Treatment Plant entrance on the North side of Freebridge Road. The Purchaser agrees to construct, maintain, and operate at its own cost and expense at the Delivery Points all equipment and facilities necessary to receive and take water from the City Water System. The existing Delivery Points may be changed only by mutual written agreement of the City and the Purchaser.

Section 3.2 Right of Entry. During the term of this Agreement, the City shall have the right of entry and access at all times to facilities comprising or connected to the Purchaser

Water System for any purpose related to providing wholesale water service hereunder or activities preparatory or incident hereto, to inspect the Purchaser Water System facilities, to investigate the source of operational or maintenance problems, or for preventative purposes intended to detect, minimize or avert operational or maintenance problems. Provided however, except in an emergency, the City shall give reasonable notice to Purchaser prior to entry, and Purchaser shall have the right to have a representative present during each access by the City.

Section 3.3 Operation and Maintenance. The City shall be responsible for operation and maintenance of the City Water System, including all facilities constructed for the purpose of transporting water to the Delivery Points. Unless otherwise agreed in writing, Purchaser shall be responsible for operation and maintenance of the Purchaser Water System constructed for the transportation and delivery of water to its retail customers from and including each delivery point.

ARTICLE IV Water Rates, Charges and Billing

Section 4.1 Wholesale Water Rates. Purchaser agrees to pay the Wholesale Water Rate per thousand gallons of water delivered to the delivery point pursuant to this Agreement. The initial Wholesale Water Rate shall be \$3.17 per thousand gallons of water delivered by the City to the Delivery Point. The initial rate shall be effective upon execution of this Agreement and shall continue in effect until January 1, 2014. The City shall establish a new Wholesale Water Rate biennially by utilizing the methodology and formulas as set forth in the Wholesale Water Rate Template.

The parties agree to perform a True Up biennially with the first True Up being due on March 1, 2014. In calculating the True Up, the City shall perform an analysis and comparison of the Wholesale Water Rate. The True Up shall mean an analysis and comparison of the City's projected cost and actual costs for the production of wholesale water sold and delivered pursuant to this Agreement for the prior two years. In connection with the performance of the True Up, Purchaser shall have full access to the City's accounting records and source documents used to determine the City's costs. Upon completion of the True Up, the parties agree that:

- (1) If the amount billed is greater than the actual cost, Purchaser shall be reimbursed a sum equal to the difference; or
- (2) If the amount billed is less than the actual cost, Purchaser shall be assessed an additional sum equal to the difference.

The assessment or reimbursement shall be made within forty-five (45) days after notice of the True Up calculation or as otherwise agreed by the parties.

Section 4.2 Minimum Payment Obligation. In addition to any other charges pursuant to this Agreement, Purchaser shall pay for a minimum quantity of water each year (the "Minimum Payment Obligation"). The Minimum Payment Obligation shall be an amount not

less than the product obtained by multiplying the Wholesale Water Rate times the Annual Allotment then in effect. Purchaser agrees to pay to the City each year the Minimum Payment Obligation regardless of the actual quantity of water received by Purchaser at the Delivery Points during any given calendar year. Purchaser shall pay City the Minimum Payment Obligation on or before the 1st day of February of each year. Provided, however, the City shall prorate the Minimum Payment Obligation from the effective date of this contract to January 1, 2013.

Section 4.3 Excess Water. In the event Purchaser receives at the Delivery Points a quantity of water in excess of the Annual Allotment during any calendar year, the Seller shall charge Purchaser up to one hundred twenty-five percent (125%) of the Wholesale Water Rate in effect for that year for the excess water in accordance with the following schedule:

- (a) For the quantity of water that is 10,000,000 gallons greater than the Annual Allotment, but less than 20,000,000 gallons greater than the Annual Allotment, a surcharge of five percent (5%);
- (b) For the quantity of water that is 20,000,000 gallons greater than the Annual Allotment, but less than 30,000,000 gallons greater than the Annual Allotment, a surcharge of ten percent (10%);
- (c) For the quantity of water that is 30,000,000 gallons greater than the Annual Allotment, a surcharge of twenty-five percent (25%).

Section 4.4 Billing and Payment. All payments for water shall be paid to the City on or before the due date specified on the invoice, or if no due date is specified, on or before twenty (20) days from the date of the invoice. Payments shall be mailed to the address indicated on the invoice. Payment must be received by the City by the due date in order not to be considered past due or late. A late payment penalty of 10% will be assessed to all past due amounts. In the event payment is not received by the due date, the City shall also be entitled to terminate this Agreement and the provision of wholesale water service to Purchaser after providing notice to Purchaser and an opportunity to cure in accordance with the terms thereof.

Section 4.5 Metering Equipment. Purchaser agrees to operate and maintain at its own expense at the Delivery Points the necessary metering equipment for properly measuring the quantity of water delivered to the Purchaser. Purchaser shall test its meters by a person or entity approved by the City, at its own expense once each year to determine the accuracy thereof and provide results of each test to the City. In the event of the failure of metering equipment, an estimate of usage shall be calculated by the same period in the previous years usage. Purchaser shall also test any of its meters upon request by the City by a person or entity approved by the City at Purchaser's expense. The previous readings of any meter disclosed by test to be inaccurate shall be corrected for a period of three (3) months preceding the date the inaccuracy is determined.

Section 4.6 Dispute Regarding Payment. If a Court, the Commission, or any Federal or State Regulatory Authority finds that the City's rates or policies for delivering water to

Purchaser under this Agreement are unreasonable or otherwise unenforceable, the City has the option to terminate this Agreement without liability to Purchaser.

ARTICLE V

Remedies

Section 5.1 Remedies. After providing notice and an opportunity to cure in accordance with Section 5.2 below, the Parties shall have the right to seek a state district court sitting in Rains County, Texas to grant any and all remedies which are appropriate to assure conformance to the provisions of this Agreement. The defaulting Party shall be liable to the other for all costs actually incurred in pursuing such remedies, including reasonable attorney's fees, and for any penalties or fines as a result of the failure to comply with the terms. The Parties agree that venue for any litigation arising out of or by reason of this Agreement shall be in a State District Court sitting in Rains County.

Section 5.2 Notice and Opportunity to Cure. If either Party (referred to herein as the "Defaulting Party") fails to comply with its obligations under this Agreement or is otherwise in breach or default under this Agreement (collectively, a "Default") then the other Party (referred to herein as the "Non-Defaulting Party") may not invoke any rights or remedies with respect to the Default until and unless: (i) the Non-Defaulting Party delivers to the Defaulting Party a written notice (the "Default Notice") which specifies all of the particulars of the Default and specifies the actions necessary to cure the Default; and (ii) the Defaulting Party fails to cure, withing thirty (30) days after the Defaulting Party's receipt of the Default Notice.

ARTICLE VI

Term

Section 6.1 Term of Agreement. This Agreement shall continue for a period of twenty-five (25) years from the Effective Date.

Section 6.2 Termination. The obligation of the City to supply water under this Agreement may be terminated by the City if it becomes illegal or impossible for the City to perform such obligations as a result of the occurrence of any one or more of the following:

- (a) The cancellation, amendment or other limitations by the Sabine River Authority or any local, state, or federal agency of any of the permits, amendments, licenses, or authorizations required for the appropriation of water from the Sabine River Authority by the City;
- (b) The promulgation or issuance of any order, rule, regulation, or determination by a Court or governmental agency that prevents the City from performing its obligations under this Agreement to supply water; and

- (c) The amount of water allotted to the City by the Sabine River Authority is reduced or limited by the Sabine River Authority, or any local, state, or federal agency.

In the event of termination of this Agreement for any reason, the City shall not be responsible for any costs and expenses of the Purchaser related, directly or indirectly, to securing alternative water service to the Purchaser.

ARTICLE VII

General

Section 7.1 Indemnity. By signing this Agreement, Purchaser agrees, on behalf of itself and its successors and assigns, that it relinquishes and discharges, and will, to the fullest extent permitted by law, defend, protect, indemnify, and hold harmless the City and the City's officers, councilmen, employees, agents, and consultants from and against all claims, losses, expenses, costs, damages, demands, judgments, causes of action, suits, and liability in tort, contract or any other basis and of every kind and character whatsoever (including but not limited to all costs of defense, such as fees and charges of attorneys, expert witnesses, and other professional incurred by the City and all other court or arbitration or other dispute resolution cost) arising out of or incident to, directly or indirectly, this Agreement, including but not limited to any such claim for bodily injury, death, property damage, consequential damage, or economic loss and any claim on account of, or arising from, or accruing as a result of the purchase, transportation, delivery, or use of the water subject to this Agreement after the water is delivered to the Delivery Points.

Section 7.2 Sole Agreement. By executing this Agreement, the parties agree and stipulate that this Agreement shall supercede and replace any prior or existing Agreements for the sale and purchase of wholesale water. The parties further agree and stipulate that this Agreement constitutes the sole and only Agreement between Purchaser and the City regarding the purchase and delivery of potable water and this Agreement supercedes any prior understandings or oral or written agreements between the Purchaser and the City respecting the sale of potable water.

Section 7.3 Force Majeure. In the event that any Party is rendered unable, wholly or in part, to perform any of its obligations under this Agreement (by reason of failure or national moratorium of operation of the banks, transfer agents, brokers, stock exchanges or modes of transportation; or work stoppages or restraint by court order or other public authority; or action or inaction concerning governmental or regulatory authorizations; or transportation delay; or death or personal injury of a representative of a Party whose signature is necessary), upon the provision of written notice which fully relates the particulars of the claimed force majeure, including but not limited to the dates on which it commenced and ceased or is expected to cease by the Party claiming force majeure to the other Party as soon as is reasonable practicable after the occurrence of the cause relied upon, the obligations of the Party claiming force majeure, to the extent they are affected by the force majeure, shall be suspended during the continuance of any inability of performance so caused. This Agreement shall not be terminated by reason of any such cause but shall remain in full force and effect. Any Party rendered unable

to fulfill any of its obligations under this Agreement by reason of force majeure shall exercise the utmost diligence to remove such inability. The suspension of obligations of a Party to this Agreement pursuant to this Section shall be added to the time specified in other provisions of this Agreement for the purpose of calculating the date on which certain conditions of this Agreement are to be satisfied.

Section 7.4 Modification. This Agreement shall be subject to change or modification only with the mutual written consent of the Parties.

Section 7.5 Captions. The captions appearing at the first of each numbered section or paragraph in this Agreement are included solely for convenience and shall never be considered or given any effect in construing this Agreement.

Section 7.6 Severability. The provisions of this Agreement are severable, and if any provision or part of this Agreement shall ever be held by any court of competent jurisdiction to be invalid or unconstitutional for any reason, the remainder of this Agreement and the application of such provision or part of this Agreement to other persons or circumstances shall not be affected thereby.

Section 7.7 Cooperation. Each Party hereby agrees that it will take all actions necessary to fully carry out the purposes and intent of this Agreement.

Section 7.8 Addresses and Notice. All notices hereunder from Purchaser to the City will be sufficient if sent by certified mail or facsimile transmission with confirmation of delivery, addressed to the City at P.O. Box 100, Emory, Texas 75440. All notices from the City to Purchaser will be sufficiently given if sent by certified mail or facsimile transmission with confirmation of delivery to Purchaser at 288 Briggs Blvd., East Tawakoni, Texas 75472. All notices will be deemed to have been given on the date of mailing or sending of such notice. Any Party may change its address upon five days written notice to the other Parties.

Section 7.9 Assignability. In the event of any occurrence rendering the Purchaser incapable of performing under this Agreement, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed the rights of the Purchaser hereunder.


Section 7.10 Extent of Agreement. This Agreement may be amended only by written instrument signed by all Parties. Nothing contained in this Agreement is intended to benefit any third Party.

Section 7.11 Place of Performance. All acts performable under the terms of this Agreement and all amounts due under this Agreement, including, but not limited to, payments due under this Agreement or damages for the breach of this Agreement, shall be paid and due in Rains County, Texas. Said Rains County, Texas shall be the place of performance agreed to by the Parties to this Agreement. In the event that any legal proceedings is brought to enforce this


Agreement, or any provision hereof, the same shall be brought in State Court in Rains County, Texas.

IN WITNESS WHEREOF, the Parties hereto have caused this instrument to be signed, sealed and attested in duplicate by their duly authorized officers, on the dates set out below, to be effective as of the Effective Date of this Agreement.

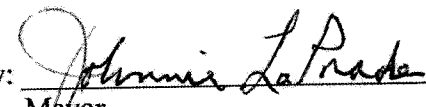
CITY OF EMORY:

By: 
Mayor

Attest:


City Secretary

CITY OF EAST TAWAKONI

By: 
Mayor

Attest:


City Secretary

STATE OF TEXAS)

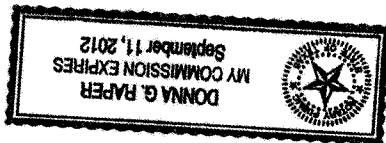
COUNTY OF RAINS)

Before me, a Notary Public in and for the State of Texas, on this day personally appeared Cay B. Hulse, proved to me through Texas Driver's License to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that Cay B. Hulse executed the same as the act of the CITY OF EMORY, as its Duly Authorized Representative, for the purposes and consideration therein expressed and in the capacity therein stated.

Given under my hand and seal of office this 26 day of July, 2012.

Donna G. Raper
Notary Public, State of Texas

My commission expires: Sept 11, 2012



STATE OF TEXAS)

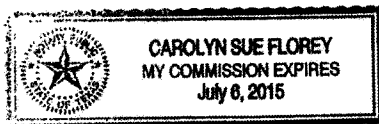
COUNTY OF RAINS)

Before me, a Notary Public in and for the State of Texas, on this day personally appeared Johnnie La Prade, proved to me through Texas Driver's License to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that Johnnie La Prade executed the same as the act of the CITY OF EAST TAWAKONI, as its Duly Authorized Representative, for the purposes and consideration therein expressed and in the capacity therein stated.

Given under my hand and seal of office this 25 day of July, 2012.

Carolyn Sue Florey
Notary Public, State of Texas

My commission expires: July 6, 2015



Attachment 9

ATTACHMENT 9

Rolling Hills Cedar Cove WSC
72111
1001 830157018

5. I. ABILITY TO PROVIDE ADEQUATE SERVICE

A majority of the lines in the four residential additions in the previous Rolling Hills Cedar Cove WSC purchased by East Tawakoni have been replaced in the past three years. There are numerous undeveloped lots in these additions. With the improvements to these additions East Tawakoni is capable of provide adequate service as these additions develop.

The majority of the undeveloped land in the proposed area not located these four residential additions is agricultural in nature. This area involves lower customer densities than the city limits proper. Future growth in this area will not be significant – The Region D Water Plan projects less than 1.7% growth per year for Hunt County and less than 1.4% for Rains County for the next 15 years. With this gradual growth East Tawakoni will be able to expand their service to meet the needs of future customers.

Attachment 10

**City of East Tawakoni, Texas
Annual Financial and Compliance Report
For The Year Ended December 31, 2012**

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**City of East Tawakoni, Texas
Annual Financial and Compliance Report
For The Year Ended December 31, 2012**

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FINANCIAL SECTION

SCOTT, SINGLETON, FINCHER AND COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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GREENVILLE, TEXAS 75401

Kelley D. Fincher, CPA
Tommy L. Nelson, CPA
Hannah C. Nelson, CPA
Abi E. Evans, CPA

Members of:
American Institute of
Certified Public Accountants

Texas Society of
Certified Public Accountants

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of East Tawakoni, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of East Tawakoni, Texas, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of East Tawakoni, Texas, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 18 and page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawakoni, Texas' basic financial statements. The supplementary schedules 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30 2013, on our consideration of the City of East Tawakoni, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of East Tawakoni, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

Scott, Singleton, Fincher and Company, PC
Certified Public Accountants

July 30, 2013

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management for the City of East Tawakoni, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2012. This discussion should be read in conjunction with the financial statements and related notes. Comparative data is presented for government-wide and fund financial statements at the end of this section.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Activities are \$1,650,106. Of this amount \$1,692,372 is invested in capital assets or restricted for debt service and other activities, leaving (\$42,266) of unrestricted net position.
- Government-wide net position increased by \$101,944 during 2012.
- Each of the City's fund financial statements reported changes in equity as follows:

General Fund - \$556 decrease
Water & Sewer Fund - \$64,929 increase
Debt Service Fund - \$20,181 increase
Capital Projects Fund - \$139 decrease

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, public safety and judicial, and street maintenance services. Property taxes, sales taxes, and franchise taxes finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom of each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

In the government-wide financial statements, net position serves as one useful indicator of a government's financial position. In the case of the City, the combined net position exceeded liabilities by \$1,650,106 and \$1,548,162 at the close of FY 2012 and FY 2011, respectively.

The combined net position of the City's activities increased from \$1,548,162 to \$1,650,106 or \$101,944 during 2012. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was (\$42,266).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds \$257,233 and proprietary funds \$1,359,903 reported combined fund balance and net position of \$1,617,136, an \$84,415 increase from last year.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's net investment in capital assets reported in the governmental activities and business-type activities was \$3,757 and \$1,251,410, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was a decrease of \$40,285 and a increase of \$622,624 in each of the respective activities.

Long-term Debt – at year-end the City had \$3,060,151 in bonds and capital leases payable outstanding – a increase of \$412,382 from last year. More detailed information about the City's long-term liabilities is presented in Note 7 to the basic financial statements.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

The City continued to experience limited growth in the past year, possibly in connection to the rising price of gasoline and the cost of commuting to work in the metroplex area.

The City of East Tawakoni has a million dollar loan with the Texas Water Development Board to finish replacing any steel lines left in the Community Water System, which covers Holiday Hills, Highland Acres, Kiowa Village and Rolling Hills.

The City's Economic Development Corporation continues to work diligently to bring new businesses to the City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Secretary at 288 Briggs Blvd., East Tawakoni, Texas 75472 or at (903) 447-2444.

CITY OF EAST TAWAKONI, TEXAS
COMPARATIVE STATEMENT OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
ASSETS						
Current and other assets	\$ 318,021	\$ 305,810	\$ 467,617	\$ 360,837	\$ 785,638	\$ 666,647
Capital assets, net	<u>680,908</u>	<u>721,193</u>	<u>3,634,410</u>	<u>3,011,786</u>	<u>4,315,318</u>	<u>3,732,979</u>
Total Assets	<u>998,929</u>	<u>1,027,003</u>	<u>4,102,027</u>	<u>3,372,623</u>	<u>5,100,956</u>	<u>4,399,626</u>
LIABILITIES						
Other liabilities	31,575	40,046	293,870	18,567	325,445	58,613
Long-term liabilities						
Meter deposits payable			65,254	59,860	65,254	59,860
Due within one year	61,365	56,017	102,000	46,000	163,365	102,017
Due in more than one year	<u>615,786</u>	<u>677,752</u>	<u>2,281,000</u>	<u>1,868,000</u>	<u>2,896,786</u>	<u>2,545,752</u>
Total Liabilities	<u>708,726</u>	<u>773,815</u>	<u>2,742,124</u>	<u>1,992,427</u>	<u>3,450,850</u>	<u>2,766,242</u>
NET POSITION						
Net investment in capital assets	3,757	(12,576)	1,251,410	1,097,787	1,255,167	1,085,211
Restricted for debt service	154,797	129,459	225,329	109,265	380,126	238,724
Restricted for capital improvements	27,878	28,017	29,201	38,507	57,079	66,524
Unrestricted	<u>103,771</u>	<u>108,288</u>	<u>(146,037)</u>	<u>134,637</u>	<u>(42,266)</u>	<u>242,925</u>
Total Net Position	<u>\$ 290,203</u>	<u>\$ 253,188</u>	<u>\$ 1,359,903</u>	<u>\$ 1,380,196</u>	<u>\$ 1,650,106</u>	<u>\$ 1,633,384</u>

CITY OF EAST TAWAKONI, TEXAS
COMPARATIVE STATEMENT OF ACTIVITIES

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 40,539	\$ 26,773	\$ 871,287	\$ 917,869	\$ 911,826	\$ 944,642
Operating grants/contributions			-		-	
Capital grants/contributions	13,948		33,030	12,201	46,978	12,201
General revenues:						
Ad valorem taxes	213,036	210,835			213,036	210,835
Sales taxes	48,639	55,121			48,639	55,121
Franchise taxes	30,468	38,681			30,468	38,681
Other	13,378	8,877	299	237	13,677	9,114
Total revenues	<u>360,008</u>	<u>340,287</u>	<u>904,616</u>	<u>930,307</u>	<u>1,264,624</u>	<u>1,270,594</u>
Expenses:						
Administration	87,211	83,586			87,211	83,586
Public safety and judicial services	189,703	176,211			189,703	176,211
Street Maintenance	65,727	65,537			65,727	65,537
Interest on long-term debt	36,100	39,447			36,100	39,447
Water, Sewer and Sanitation Services			807,939	846,773	807,939	846,773
Total Expenses	<u>378,741</u>	<u>364,781</u>	<u>807,939</u>	<u>846,773</u>	<u>1,186,680</u>	<u>1,211,554</u>
Excess (deficiency) of revenues over (under) expenses before transfers	(18,733)	(24,494)	96,677	83,534	77,944	59,040
Transfers in (out)	<u>55,748</u>	<u>53,766</u>	<u>(31,748)</u>	<u>(29,766)</u>	<u>24,000 *</u>	<u>24,000</u>
Change in Net Position	37,015	29,272	64,929	53,768	101,944	83,040
Net position - beginning of year	<u>253,188</u>	<u>223,916</u>	<u>1,380,196</u>	<u>1,326,428</u>	<u>1,633,384</u>	<u>1,550,344</u>
Prior period adjustment (Note 3)			(85,222)		(85,222)	
Net position - end of year	<u>\$ 290,203</u>	<u>\$ 253,188</u>	<u>\$ 1,359,903</u>	<u>\$ 1,380,196</u>	<u>\$ 1,650,106</u>	<u>\$ 1,633,384</u>

*Net transfer in came from the component unit, East Tawakoni Economic Development Corporation.

CITY OF EAST TAWAKONI, TEXAS
COMPARATIVE BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012 and 2011

	General	Debt Service	Other Governmental Fund (Capital Projects Fund)	Total Governmental Funds	
				2012	2011
<u>ASSETS</u>					
Cash and cash equivalents	\$ 21,155	\$ -	\$ -	\$ 21,155	\$ 26,601
Sales and franchise taxes receivable	39,618			39,618	42,585
Property taxes receivable, net of allowance of \$5,779 (2012) and \$6,678 (2011)	52,001			52,001	60,101
Due from other funds	26,492			26,492	39,009
Prepaid expenses	7,258			7,258	5,463
Restricted assets:					
Cash and cash equivalents		124,201	27,878	152,079	123,769
Property tax receivable, net of allowance of \$3,400 (2012) and \$3,745 (2011)		30,596		30,596	33,707
Total Assets	\$ 146,524	\$ 154,797	\$ 27,878	\$ 329,199	\$ 331,235
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts payable	14,525			14,525	9,706
Due to other funds		19,871		19,871	45,378
Due to component unit	5,201			5,201	3,856
Total Liabilities	19,726	19,871	-	39,597	58,940
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable property tax revenue	20,475	11,894		32,369	34,548
<u>FUND BALANCES</u>					
Restricted for:					
Capital Improvements			27,878	27,878	28,017
Debt Service		123,032		123,032	102,851
Assigned for:					
Public safety and judicial services	534			534	634
Nonspendable:					
Prepaid expenses	7,258			7,258	5,463
Due from other funds	26,492			26,492	39,009
Unassigned	72,039			72,039	61,773
Total Fund Balances	106,323	123,032	27,878	257,233	237,747
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 146,524	\$ 154,797	\$ 27,878	\$ 329,199	\$ 331,235

CITY OF EAST TAWAKONI, TEXAS
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended December 31, 2012 and 2011

	General Fund	Debt Service Fund	Other Governmental Fund (Capital Projects Fund)	Total Governmental Funds	
				2012	2011
REVENUES:					
Ad valorem taxes	\$ 133,024	\$ 82,191		\$ 215,215	\$ 216,104
Franchise taxes	30,468			30,468	38,681
Sales taxes	48,639			48,639	55,121
Permits	4,060			4,060	3,758
Fines and other fees	38,809			38,809	25,938
ETCOG grant revenue	11,948			11,948	
Other revenue	8,905			8,905	4,919
Interest income		385	28	413	200
Total Revenues	275,853	82,576	28	358,457	344,721
EXPENDITURES:					
Administration	83,840			83,840	80,206
Public Safety and Judicial Services	177,111			177,111	166,623
Animal Control				-	-
Street Maintenance				-	798
Capital Outlay	39,405			39,405	33,769
Debt Service:					
Principal retirement	6,618	50,000		56,618	45,000
Interest and fiscal charges	1,350	36,395		37,745	38,665
Total Expenditures	308,324	86,395	-	394,719	365,061
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,471)	(3,819)	28	(36,262)	(20,340)
OTHER FINANCING SOURCES (USES):					
Proceeds from the sale of capital assets	-			-	4,000
Proceeds from capital lease agreements	-			-	33,769
Transfers in (out)	31,915	24,000	(167)	55,748	53,766
Net Other Financing Sources (Uses)	31,915	24,000	(167)	55,748	91,535
Net change in fund balances	(556)	20,181	(139)	19,486	71,195
Fund balance, January 1	106,879	102,851	28,017	237,747	166,552
Fund balance, December 31	\$ 106,323	\$ 123,032	\$ 27,878	\$ 257,233	\$ 237,747

COMPARATIVE STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
December 31, 2012 and 2011

	<u>2012</u> <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>	<u>2011</u> <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 103,397	\$ -
Accounts receivable, net of allowance of \$4,730 in 2012 and \$5,041 in 2011	92,482	109,471
Prepaid expenses	8,523	9,687
Due from other funds		31,303
Restricted Assets:		
Cash and cash equivalents	206,588	100,042
Certificates of deposit	47,942	47,730
Total current assets	<u>458,932</u>	<u>298,233</u>
Noncurrent Assets:		
Capital Assets:		
Land	7,781	7,781
Construction in progress	811,618	78,716
Capital Assets, net of depreciation	<u>2,815,011</u>	<u>2,925,289</u>
Other Assets:		
Deposits	<u>8,685</u>	<u>8,685</u>
Total noncurrent assets	<u>8,685</u>	<u>3,020,471</u>
Total Assets	<u>\$ 4,102,027</u>	<u>\$ 3,318,704</u>
LIABILITIES:		
Current Liabilities:		
Book overdraft	\$ -	\$ 5,012
Accounts payable	248,489	2,875
Due to other funds	6,621	24,934
Payable from restricted assets:		
Accrued interest payable	38,760	17,049
Bonds payable	<u>102,000</u>	<u>46,000</u>
Total current liabilities	<u>395,870</u>	<u>95,870</u>
Noncurrent Liabilities:		
Meter deposits payable	65,254	59,860
Bonds payable	<u>2,281,000</u>	<u>1,868,000</u>
Total noncurrent liabilities	<u>2,346,254</u>	<u>1,927,860</u>
Total liabilities	<u>2,742,124</u>	<u>2,023,730</u>
NET POSITION:		
Net investment in capital assets	1,251,410	1,097,787
Restricted for debt service	225,329	109,265
Restricted for capital improvements	29,201	38,507
Unrestricted	<u>(146,037)</u>	<u>49,415</u>
Total Net Position	<u>\$ 1,359,903</u>	<u>\$ 1,294,974</u>

CITY OF EAST TAWAKONI, TEXAS
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Years Ended December 31, 2012 and 2011

	2012	2011
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and</u>	<u>Water and</u>
	<u>Sewer Fund</u>	<u>Sewer Fund</u>
OPERATING REVENUES:		
Water sales	\$ 548,689	\$ 585,856
Sewer sales	145,667	144,808
Garbage fees	144,196	149,091
Penalties	10,516	22,381
Other revenues	22,219	15,733
Total Operating Revenues	<u>871,287</u>	<u>917,869</u>
OPERATING EXPENSES:		
Salaries and benefits	173,810	167,371
Contract labor	18,185	8,890
Professional fees	525	9,711
Water purchases	196,281	206,347
Garbage fees	106,964	117,124
Repairs and facility maintenance	25,572	42,479
General insurance	6,227	6,221
Vehicle expense	10,181	12,901
Utilities and telephone	16,129	26,051
Chemicals and inspections	13,839	16,539
TCEQ fees and fines	2,032	3,291
Depreciation and amortization	147,308	150,296
Other expense	16,564	10,557
Total Operating Expenses	<u>733,617</u>	<u>777,778</u>
Operating Income (Loss)	<u>\$ 137,670</u>	<u>\$ 140,091</u>

(Continued)

CITY OF EAST TAWAKONI, TEXAS
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Years Ended December 31, 2012 and 2011

	<u>2012</u> <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>	<u>2011</u> <u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	\$ 299	\$ 237
Interest and fiscal charges	<u>(74,322)</u>	<u>(68,995)</u>
Total Nonoperating Revenues (Expenses)	<u>(74,023)</u>	<u>(68,758)</u>
 Income (loss) before contributions and transfers	 63,647	 71,333
 Sabine River Authority capital grant	 10,000	 -
SECO capital grant	23,030	12,201
Transfers out to other funds	<u>(31,748)</u>	<u>(29,766)</u>
 Change in net position	 64,929	 53,768
 Total net position, January 1	 <u>1,380,196</u>	 <u>1,326,428</u>
 Prior period adjustment (Note 3)	 (85,222)	
 Total net position, December 31	 <u>\$ 1,359,903</u>	 <u>\$ 1,380,196</u>

**BASIC
FINANCIAL STATEMENTS**

CITY OF EAST TAWAKONI, TEXAS
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government		Total	Component
	Governmental	Business-type	Primary	Unit
	Activities	Activities	Government	
ASSETS				
Cash and cash equivalents	\$ 21,155	\$ 103,397	\$ 124,552	\$ 39,107
Sales and franchise taxes receivable	39,618		39,618	
Property taxes receivable, net of allowance of \$5,579	52,001		52,001	
Accounts receivable, net of allowance of \$4,730		92,482	92,482	
Due from primary government				5,201
Fines receivable, net	15,314		15,314	
Prepaid expenses	7,258	8,523	15,781	
Deposits		8,685	8,685	
Restricted assets:				
Cash and cash equivalents	152,079	206,588	358,667	
Certificates of deposit		47,942	47,942	
Property taxes receivable, net of allowance of \$3,400	30,596		30,596	
Capital assets:				
Land	32,703	7,781	40,484	
Construction in progress		811,618	811,618	
Capital assets, net of accumulated depreciation	648,205	2,815,011	3,463,216	
Total Assets	998,929	4,102,027	5,100,956	44,308
LIABILITIES				
Accounts payable	14,525	248,489	263,014	
Due to component unit	5,201		5,201	
Internal balances	(6,621)	6,621	-	
Payable from restricted assets:				
Accrued interest	18,470	38,760	57,230	
Noncurrent liabilities:				
Meter deposits payable		65,254	65,254	
Capital leases due within one year	6,365		6,365	
Capital leases due in more than one year	20,786		20,786	
Bonds due within one year	55,000	102,000	157,000	
Bonds due in more than one year	595,000	2,281,000	2,876,000	
Total Liabilities	708,726	2,742,124	3,450,850	-
NET POSITION				
Net investment in capital assets	3,757	1,251,410	1,255,167	
Restricted for debt service	154,797	225,329	380,126	
Restricted for capital improvements	27,878	29,201	57,079	
Unrestricted	103,771	(146,037)	(42,266)	44,308
Total Net Position	\$ 290,203	\$ 1,359,903	\$ 1,650,106	\$ 44,308

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

CITY OF EAST TAWAKONI, TEXAS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government	
Governmental activities:								
Administration	\$ 87,211				\$ (87,211)		\$ (87,211)	\$ (4,581)
Public safety and judicial services	189,703	40,539		13,948	(135,216)		(135,216)	
Street Maintenance	65,727				(65,727)		(65,727)	
Interest on long-term debt	36,100				(36,100)		(36,100)	
Total governmental activities	378,741	40,539	-	13,948	(324,254)		(324,254)	(4,581)
Business-type activities:								
Water and sewer services	807,939	871,287	-	33,030	-	96,378	96,378	
Total business-type activities	807,939	871,287	-	33,030	-	96,378	96,378	
Total all activities	\$ 1,186,680	\$ 911,826	\$ -	\$ 46,978	\$ (324,254)	\$ 96,378	\$ (227,876)	\$ (4,581)
General revenues:								
Ad valorem taxes					213,036		213,036	
Sales taxes					48,639		48,639	23,324
Franchise taxes					30,468		30,468	
Miscellaneous income and contributions					12,965		12,965	4,680
Unrestricted investment earnings					413	299	712	9
Transfers in (out)					55,748	(31,748)	24,000	(24,000)
Total general revenues and transfers					361,269	(31,449)	329,820	4,013
Change in net position					37,015	64,929	101,944	(568)
Net position-beginning of year - restated (Note 3)					253,188	1,294,974	1,548,162	44,876
Net position-end of year					\$ 290,203	\$ 1,359,903	\$ 1,650,106	\$ 44,308

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

CITY OF EAST TAWAKONI, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	General Fund	Debt Service Fund	Other Governmental Fund (Capital Projects Fund)	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 21,155	\$ -	\$ -	\$ 21,155
Sales and franchise taxes receivable	39,618			39,618
Property taxes receivable, net of allowance of \$5,779	52,001			52,001
Due from other funds	26,492			26,492
Prepaid expenses	7,258			7,258
Restricted assets:				
Cash and cash equivalents		124,201	27,878	152,079
Property tax receivable, net of allowance of \$3,400		30,596		30,596
Total Assets	\$ 146,524	\$ 154,797	\$ 27,878	\$ 329,199
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable	14,525			14,525
Due to other funds		19,871		19,871
Due to component unit	5,201			5,201
Total Liabilities	19,726	19,871	-	39,597
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable property tax revenue	20,475	11,894	-	32,369
<u>FUND BALANCES</u>				
Restricted for:				
Capital improvements			27,878	27,878
Debt service		123,032		123,032
Assigned for:				
Public safety and judicial services	534			534
Nonspendable:				
Prepaid expenses	7,258			7,258
Due from other funds	26,492			26,492
Unassigned	72,039			72,039
Total Fund Balances	106,323	123,032	27,878	257,233
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 146,524	\$ 154,797	\$ 27,878	\$ 329,199

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

CITY OF EAST TAWAKONI, TEXAS
Reconciliation of the Balance Sheet
Of Governmental Funds to the
Statement of Net Position
Year Ended December 31, 2012

Total fund balances - governmental funds	\$ 257,233
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**Amounts reported for governmental activities in the statement of net position
are different because:**

Capital assets of \$1,337,099, net of accumulated depreciation of \$(656,191) are not current financial resources and therefore are not reported in the fund balance sheet.	680,908
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Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are not reported in the funds. These include net fines receivable in the amount of \$15,314.	15,314
--	--------

Deferred inflows of resources represent an acquisition of net position that applies to a future period and therefore are not recognized as an inflow of resources until the period that they amount become available. These include unavailable property taxes in the amount of \$32,369.	32,369
---	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. This amount consists of general long-term debt in the amount of (\$650,000), capital leases in the amount of (\$27,151), and accrued interest in the amount of (\$18,470).	<div style="border-top: 1px solid black; display: inline-block;">(695,621)</div>
---	--

Net Position of Governmental Activities	<u>\$ 290,203</u>
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CITY OF EAST TAWAKONI, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

	General Fund	Debt Service Fund	Other Governmental Fund (Capital Projects Fund)	Totals Memorandum Only
REVENUES:				
Ad valorem taxes	\$ 133,024	\$ 82,191		\$ 215,215
Franchise taxes	30,468			30,468
Sales taxes	48,639			48,639
Permits	4,060			4,060
Fines and other fees	38,809			38,809
ETCOG grant revenue	11,948			11,948
Other revenue	8,905			8,905
Interest income		385	28	413
Total Revenues	275,853	82,576	28	358,457
EXPENDITURES:				
Current:				
Administration	83,840			83,840
Public Safety and Judicial Services	177,111			177,111
Street Maintenance			-	-
Capital Outlay	39,405			39,405
Debt Service:				
Principal retirement	6,618	50,000		56,618
Interest and fiscal charges	1,350	36,395		37,745
Total Expenditures	308,324	86,395	-	394,719
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,471)	(3,819)	28	(36,262)
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	31,915	24,000	(167)	55,748
Net Other Financing Sources (Uses)	31,915	24,000	\$ (167)	55,748
Net change in fund balances	(556)	20,181	(139)	19,486
Fund balance, January 1	106,879	102,851	28,017	237,747
Fund balance, December 31	\$ 106,323	\$ 123,032	\$ 27,878	\$ 257,233

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

CITY OF EAST TAWAKONI, TEXAS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2012

Net change in fund balances - total governmental funds

\$ 19,486

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

Governmental funds report capital outlays as expenditures, while 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 depreciation of (\$81,690) exceeded capital expenditures of \$39,405 in the current period.

(42,285)

Capital assets received as contributions do not provide current resources and are not recorded in the funds, however, the contribution of capital assets increases long term assets in the statement of net position.

2,000

Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt principal repayments of \$56,618 exceeded debt proceeds of (\$0) for the year.

56,618

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in deferred ad valorem taxes in the amount of (\$2,179) and the change in fines and related charges in the amount of \$1,730.

(449)

Some expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This includes the change in accrued interest on debt in the amount of \$1,645.

1,645

Change in net position of governmental activities

\$ 37,015

CITY OF EAST TAWAKONI, TEXAS
Statement of Net Position
Proprietary Fund
December 31, 2012

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 103,397
Accounts receivable, net of allowance of \$4,730	92,482
Prepaid expenses	8,523
Restricted Assets:	
Cash and cash equivalents	206,588
Certificates of deposit	47,942
Total current assets	<u>458,932</u>
Noncurrent Assets:	
Capital Assets:	
Land	7,781
Construction in progress	811,618
Capital Assets, net of accumulated depreciation	<u>2,815,011</u>
Other Assets:	
Deposits	<u>8,685</u>
Total noncurrent assets	<u>3,643,095</u>
Total Assets	<u>\$ 4,102,027</u>
LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 248,489
Due to other funds	6,621
Payable from restricted assets:	
Accrued interest payable	38,760
Bonds payable	102,000
Total current liabilities	<u>395,870</u>
Noncurrent Liabilities:	
Meter deposits payable	65,254
Bonds payable	2,281,000
Total noncurrent liabilities	<u>2,346,254</u>
Total liabilities	<u>2,742,124</u>
NET POSITION:	
Net investment in capital assets	1,251,410
Restricted for debt service	225,329
Restricted for capital improvements	29,201
Unrestricted	(146,037)
Total Net Position	<u>\$ 1,359,903</u>

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

CITY OF EAST TAWAKONI, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended December 31, 2012

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
OPERATING REVENUES:	
Water sales	\$ 548,689
Sewer sales	145,667
Garbage fees	144,196
Penalties	10,516
Other revenues	22,219
Total Operating Revenues	<u>871,287</u>
OPERATING EXPENSES:	
Salaries and benefits	173,810
Contract labor	18,185
Professional fees	525
Water purchases	196,281
Garbage fees	106,964
Repairs and facility maintenance	25,572
General insurance	6,227
Vehicle expense	10,181
Utilities and telephone	16,129
Chemicals and inspections	13,839
TCEQ fees and fines	2,032
Depreciation and amortization	147,308
Other expense	16,564
Total Operating Expenses	<u>733,617</u>
Operating Income (Loss)	<u>\$ 137,670</u>

(Continued)

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

CITY OF EAST TAWAKONI, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended December 31, 2012

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	\$ 299
Interest and fiscal charges	(74,322)
Total Nonoperating Revenues (Expenses)	<u>(74,023)</u>
Income (loss) before contributions and transfers	63,647
Sabine River Authority capital grant	10,000
SECO capital grant	23,030
Transfers out to other funds	<u>(31,748)</u>
Change in net position	64,929
Total net position, January 1 - restated (Note 3)	<u>1,294,974</u>
Total net position, December 31	<u>\$ 1,359,903</u>

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

CITY OF EAST TAWAKONI, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2012

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers and users	\$ 893,670
Cash paid to suppliers	(384,785)
Cash paid to employees	(173,612)
Net cash provided (used) by operating activities	<u>335,273</u>
Cash flows from noncapital financing activities:	
Book overdraft	(5,012)
Due to/from other funds	12,990
Operating transfers (to) from other funds	(34,340)
Net cash provided (used) for noncapital financing activities	<u>(26,362)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(548,474)
Proceeds from the issuance of revenue bonds	515,000
Capital grants received	33,030
Principal paid on bonds and certificates of obligation	(46,000)
Interest paid on bonds and certificates of obligation	(52,611)
Net cash provided (used) by capital and related financing activities	<u>(99,055)</u>
Cash flows from investing activities:	
Interest on deposits and investments	87
Net cash provided (used) by investing activities	<u>87</u>
Net increase (decrease) in cash and cash equivalents	209,943
Cash and cash equivalents, January 1	<u>100,042</u>
Cash and cash equivalents, December 31	<u>\$ 309,985</u>

(Continued)

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

CITY OF EAST TAWAKONI, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2012

**Reconciliation of Net Income (Loss) to Net Cash Provided (Used)
by Operating Activities**

	<u>2012</u>
Operating income (loss)	\$ 137,670
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	147,308
(Increase) decrease in accounts receivable (net)	16,989
(Increase) decrease in prepaid expenses	1,163
Increase (decrease) in accounts payable and accrued expenses	26,749
Increase (decrease) in customer deposits	<u>5,394</u>
Total Adjustments	<u>197,603</u>
Net cash provided (used) by operating activities	<u>\$ 335,273</u>

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

City of East Tawakoni, Texas
Notes to Basic Financial Statements
December 31, 2012

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of East Tawakoni, Texas and its component unit, East Tawakoni Economic Development Corporation collectively identified as the "City" have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending December 31, 2012.

(A) Reporting Entity and Related Organizations

The City is a municipal corporation governed by an elected mayor and five member City Council. The City provides general administration, public works, public safety and judicial services to its residents.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental "reporting entity" as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in the GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria the City has the following component unit at December 31, 2012:

Discretely Presented Component Unit:

East Tawakoni Economic Development Corporation (ETEDC) - ETEDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the ETEDC board for cause. ETEDC is a nonprofit corporation governed by Section 4B of the Texas Development Corporation Act of 1979 and organized for the public purpose of the promotion and development of industrial and manufacturing enterprises to promote and encourage employment and the public welfare of the City of East Tawakoni, Texas. ETEDC does not prepare separate financial statements. ETEDC is reported as a discretely presented component unit in the government-wide financial statements.

1. Introduction and Summary of Significant Accounting Policies - continued

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

1. Introduction and Summary of Significant Accounting Policies - continued

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

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due. Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

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

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds, capital leases, and interest. This fund reports all such ad valorem taxes collected.

The City reports the following non-major governmental fund:

Capital Projects Fund - accounts for the cost of construction and related funding sources of the street project. Capital improvements are authorized by City ordinances. The project was funded through the issuance of Series 2004 General Obligation Bonds.

Proprietary Funds

The City reports the following major enterprise fund:

Water and Sewer Fund - accounts for the operating activities of the City's water and sewer utilities services.

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity
Cash and Investments

Outstanding cash and cash equivalents at December 31, 2012 consists principally of interest bearing bank accounts and certificates of deposits with an original maturity of three months or less. For purposes of the statement of cash flows, the City considers unrestricted and restricted cash and investments purchased by the City within three months of maturity to be cash equivalents.

Bank certificates of deposit are carried at cost which approximates fair value.

Restrictions on cash equivalents and certificates of deposit are as follows at year-end:

Restricted for debt service	\$ 349,530
Restricted for capital projects	<u>57,079</u>
Total restricted amounts	<u>\$ 406,609</u>

Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur and \$5,000 for road upgrades. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Road infrastructure	15
Water & sewer infrastructure & rights	25 - 40
Vehicles	5-7
Furniture, machinery, and equipment	3-10

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity-continued

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The City has no items considered to be deferred outflows of resources at year-end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has only one item that qualifies for reporting in this category. It is the unavailable property tax revenue reported in the governmental funds balance sheet.

Long-term Debt, Bond Discounts/Premiums, and Issuance Costs

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs, except any portion related to prepaid insurance costs (if applicable), are recognized as an expense in the period incurred.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The City implemented GASB Statement 54 standards for the classification of fund balances in governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

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

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council. Per the City's fund balance policy assignments may be established, modified, or rescinded only through a formal ordinance of the City Council.

Unassigned – all other spendable amounts in the general fund.

1. Introduction and Summary of Significant Accounting Policies - continued

(E) Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (continued)

Fund Equity (continued)

When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

Compensated Absences

Employees of the City are entitled to paid vacation, and paid sick leave, depending on length of service. Accrued vacation leave is not paid upon termination of employment. Therefore, compensated absences are not accrued in the government-wide or proprietary fund financial statements.

Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment.

(F) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

(G) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

2. Stewardship, Compliance, and Accountability

(A) Budgetary Information

The Mayor and the City Secretary submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally in September, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.