

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

	Enterprise Fund
	Water and
	Sewer Fund
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	458,932
 Noncurrent Assets:	
Capital Assets:	
Land	7,781
Construction in progress	811,618
Capital Assets, net of accumulated depreciation	2,815,011
 Other Assets:	
Deposits	8,685
Total noncurrent assets	3,643,095
 Total Assets	 \$ 4,102,027
 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	395,870
 Noncurrent Liabilities:	
Meter deposits payable	65,254
Bonds payable	2,281,000
Total noncurrent liabilities	2,346,254
 Total liabilities	 2,742,124
 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	\$ 1,359,903

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

	Enterprise Fund
	Water and
	Sewer Fund
OPERATING REVENUES:	
Water sales	\$ 548,689
Sewer sales	145,667
Garbage fees	144,196
Penalties	10,516
Other revenues	22,219
Total Operating Revenues	871,287
 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	733,617
Operating Income (Loss)	\$ 137,670

(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

	Enterprise Fund
	Water and
	Sewer Fund
NONOPERATING REVENUES (EXPENSES):	
Interest income	\$ 299
Interest and fiscal charges	(74,322)
Total Nonoperating Revenues (Expenses)	(74,023)
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	(31,748)
Change in net position	64,929
Total net position, January 1 - restated (Note 3)	1,294,974
Total net position, December 31	\$ 1,359,903

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

	Enterprise Fund
	Water and
	Sewer Fund
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	335,273
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	(26,362)
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	(99,055)
Cash flows from investing activities:	
Interest on deposits and investments	87
Net cash provided (used) by investing activities	87
Net increase (decrease) in cash and cash equivalents	209,943
Cash and cash equivalents, January 1	100,042
Cash and cash equivalents, December 31	\$ 309,985

(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
<hr/>	
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.

2. Stewardship, Compliance, and Accountability - continued

(A) Budgetary Information (continued)

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The General Fund budget and actual required supplementary information is presented on this basis. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

The City's expenditures exceeded budgeted amounts in the General Fund during fiscal year 2012 by \$83,848.

3. New Accounting Pronouncements

During fiscal year 2012, the City adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement Number 65, "Items Previously Reported as Assets and Liabilities." These statements address accounting and financial reporting standards of deferred outflows of resources, and net position and reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Statement Number 65 requires debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred rather than amortized over the life of the bonds as previously reported. The implementation resulted in restatement of beginning net assets as follows:

	<u>Proprietary Fund</u> <u>Water and Sewer</u>	<u>Business-Type</u> <u>Activities</u>
Net Assets, 12/31/2011	\$1,380,196	\$ 1,380,196
Prior period adjustment (assets)	<u>(85,222)</u>	<u>(85,222)</u>
Net Position, 12/31/2012	<u>\$ 1,294,974</u>	<u>\$ 1,294,974</u>

4. Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of City of East Tawakoni, Texas (primary government) are fully insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

Deposits of the component unit, East Tawakoni Economic Development Corporation (ETEDC) are fully insured by Federal Deposit Insurance Corporation (FDIC) insurance at year-end.

4. **Deposits and Investments - continued**

As of December 31, 2012, the City's reporting entity has the following investments:

<u>Type of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Credit Rating(1)</u>	<u>Days to Maturity</u>
Primary Government:				
Certificates of deposit	\$ 47,942	\$ 47,942	Exempt	92 days

(1) Ratings are provided where applicable to indicate associated **credit risk**.

Investment Policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Mayor, City Secretary, and Mayor Pro-tem. Investing is performed in accordance with investments policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent. During the year ended December 31, 2012, the City did not own any types of securities other than those permitted by statute.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy generally requires investment maturities to correspond to anticipated cash flow needs. The City's investment policy states that the risk of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations.

<u>Investment Type</u>	<u>% of Portfolio</u>
U. S. Treasury Notes/ Bonds/Bills	100%
Certificates of Deposit	100%
U. S. Agencies	50%
Local Government Investment Pools	50%
State of Texas Obligations & Agencies	20%
Local Government Obligations	20%

Following is a list of investments that represent more than 5% of total primary government investments at December 31, 2012:

<u>Description</u>	<u>Carrying Amount</u>	<u>Percentage of Portfolio</u>
Certificates of Deposit	\$ 47,942	100%

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on principal protection and safekeeping states that, all bank and savings and loan associations deposits and investments of City funds shall be secured by pledged collateral with a market value equal to no less than 102 percent of the principal plus accrued interest less an amount insured by FDIC.

5. Receivables

Enterprise Receivables, Uncollectible Accounts and Deferred Inflows

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Enterprise Fund reports accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

Water and sewer receivables are as follows at year-end:

Customer accounts receivable	\$ 97,212
Allowance for uncollectible accounts	<u>(4,730)</u>
Receivables, net of allowance	<u>\$ 92,482</u>

Property Taxes Receivable, Deferred Inflows, and Property Tax Calendar

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located within the City. Appraised values are established by the Rains County Appraisal District at 100% of market value. As of January 1, 2011, all real property was assessed at a net taxable value of \$40,501,258.

The property tax rate for the year ended December 31, 2012 was .5431 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

Maintenance and operations-General Fund	.3415
Debt Service Fund	<u>.2016</u>
Total tax rate	<u>.5431</u>

The property tax levy for the year ending December 31, 2012 was \$203,776. Property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. In the governmental fund financial statements, property taxes are recorded as revenues when they meet the measurable and available criteria described in Note 1(C). Deferred inflows of resources represent unavailable property taxes receivable which do not meet the measurable and available criteria at year-end.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

The City's full year property tax calendar is as follows:

October 1-Full year tax levy assessed for the current fiscal year-taxes are due and payable.

January 1-Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.

February 1-Penalty and interest charges begin to accrue on unpaid past due taxes.

July 1-Taxes become delinquent and are subject to attorney fees incurred for collection.

Allowance for Uncollectible Taxes

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of ten percent (10%) of the total property taxes receivable in each of the applicable fund types and in the government-wide financial statements should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales taxes receivable, franchise taxes receivable, or grants receivable as management estimates that these amounts will be fully collectible.

5. Receivables - continued

Fines and Court Costs Receivable and Related Allowances

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis. In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities has been determined based on distribution requirements of the State of Texas.

6. Capital Assets

The following table provides a summary of changes in capital assets, including assets recorded under capital leases:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 32,703	\$ _____	\$ _____	\$ 32,703
Total capital assets not being depreciated	<u>\$ 32,703</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 32,703</u>
Other capital assets being depreciated:				
Buildings & Other Improvements	96,707			96,707
Road Infrastructure	1,078,991	17,781		1,096,772
Vehicles	62,531			62,531
Furniture & Equipment	24,762	23,624		48,386
Total capital assets	<u>\$ 1,295,694</u>	<u>\$ 41,405</u>	<u>\$ -0-</u>	<u>\$ 1,337,099</u>
Less accumulated depreciation:				
Buildings, improvements	(56,764)	(2,418)		(59,182)
Road Infrastructure	(463,962)	(65,727)		(529,689)
Vehicles	(32,099)	(9,947)		(42,046)
Furniture & equipment	(21,676)	(3,598)		(25,274)
Total accumulated depreciation	<u>(574,501)</u>	<u>(81,690)</u>	<u>-0-</u>	<u>(656,191)</u>
Governmental Activities Capital Assets, net	<u>\$ 721,193</u>	<u>\$ (40,285)</u>	<u>\$ -0-</u>	<u>\$ 680,908</u>
	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 7,781	\$ _____	\$ _____	\$ 7,781
Construction in progress	78,716	732,902	-0-	811,618
Total capital assets not being depreciated	<u>\$ 86,497</u>	<u>\$ 732,902</u>	<u>\$ -0-</u>	<u>\$ 819,399</u>
Other capital assets being depreciated:				
Buildings	4,462			4,462
Water & sewer infrastructure	4,531,440	37,030		4,568,470
Vehicles	36,900			36,900
Equipment	118,141			118,141
Total capital assets	<u>\$ 4,777,440</u>	<u>\$ 769,932</u>	<u>\$ -0-</u>	<u>\$ 5,547,372</u>
Less: accumulated depreciation	<u>(1,765,654)</u>	<u>(147,308)</u>	<u>-0-</u>	<u>(1,912,962)</u>
Business-type Activities- Capital Assets, net	<u>\$ 3,011,786</u>	<u>\$ 622,624</u>	<u>\$ -0-</u>	<u>\$ 3,634,410</u>
Primary Government Capital Assets, net	<u>\$ 3,732,979</u>	<u>\$ 582,339</u>	<u>\$ -0-</u>	<u>\$ 4,315,318</u>

6. Capital Assets - continued

Depreciation expense for governmental activities was charged to functions of the City as follows:

Administration	\$ 3,371
Street Maintenance	65,727
Public Safety	<u>12,592</u>
Total	<u>\$ 81,690</u>

Depreciation expense recorded in business-type activities and the Enterprise Fund was \$147,308.

7. Debt

Long-term Debt Supporting Governmental Activities

General obligation bonds issued by the City are backed by the full faith and credit of the City. These bonds are to be repaid with property taxes levied for debt service and recorded in the Debt Service Fund. The City's borrowing capacity is restrained by maintaining the City's debt at a responsible level. Current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund. Other debt issued to support governmental activities are capital lease obligations which are primarily paid from the General Fund.

Other debt issued to support governmental activities is a capital lease obligation which is secured by the equipment purchased with the capital lease proceeds.

Long-term Debt Supporting Business-Type Activities

Revenue bonds consist of debt issued to support activities of the Enterprise (water and sewer) Fund. In addition to being backed by the full faith and credit of the City, revenue bonds are secured by a lien on and a pledge of the surplus revenues of the water and sewer system. Certificates of Obligation consist of debt issued to support activities of the Enterprise (water and sewer) Fund. In addition to being backed by the full faith and credit of the City, certificates of obligation are secured by a lien on and a pledge of the surplus revenues of the water and sewer system.

Other debt issued to support business-type activities is a capital lease obligation which is secured by the equipment purchased with the capital lease proceeds.

Interest expense for business-type activities and the Enterprise (water and sewer) Fund was \$74,322 for the year.

7. Debt - continued

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

<u>Description and purpose</u>	<u>Balance</u> <u>01/01/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities:					
General Obligation Bonds Series 2004, 5.19%, 2005-2020	\$ 700,000	\$	\$ 50,000	\$ 650,000	\$55,000
Government Capital Corporation Vehicle Capital Lease, 5.78%	<u>33,769</u>	<u> </u>	<u>6,618</u>	<u>27,151</u>	<u>6,365</u>
Total Governmental Activities	<u>\$ 733,769</u>	<u>\$ -0-</u>	<u>\$ 56,618</u>	<u>\$ 677,151</u>	<u>\$61,365</u>
Business-type Activities:					
Waterworks and Sewer System Revenue Bonds Series 1972, 5.0%	<u>27,000</u>	<u> </u>	<u>27,000</u>	<u>-0-</u>	<u>-0-</u>
Waterworks and Sewer System Jr. Lien Revenue Bonds Series 1974, 5.0%	<u>86,000</u>	<u> </u>	<u>10,000</u>	<u>76,000</u>	<u>37,000</u>
Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2000, 4.75%	<u>576,000</u>	<u> </u>	<u>9,000</u>	<u>567,000</u>	<u>10,000</u>
Tax and Water and Sewer System Surplus Revenue Certificates of Obligation Series 2006, 2.45% to 3.25%	<u>1,110,000</u>	<u> </u>	<u>-0-</u>	<u>1,110,000</u>	<u>30,000</u>
Tax and Water and Sewer System Surplus Revenue Certificates of Obligation Series 2010, .35% to 3.70%	<u>115,000</u>	<u>515,000</u>	<u>-0-</u>	<u>630,000</u>	<u>25,000</u>
Total Business-type Activities	<u>\$1,914,000</u>	<u>\$515,000</u>	<u>\$ 46,000</u>	<u>\$ 2,383,000</u>	<u>\$ 102,000</u>
Total Primary Government Long-term Debt	<u>\$2,647,769</u>	<u>\$515,000</u>	<u>\$ 102,618</u>	<u>\$ 3,060,151</u>	<u>\$ 163,017</u>

The above capital lease agreements represent general obligations of the City, and are secured by the various vehicle and equipment acquired by the capital lease proceeds. Current requirements for principal and interest of capital lease obligations are accounted for in the appropriate fund for which the liability was incurred. Assets under capital lease are recorded as vehicles with a total cost of \$33,769 and accumulated depreciation of \$13,507. Amortization expense is included in depreciation expense.

7. Debt - continued

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for bonded debt and capital lease obligations are as follows at year-end:

Fiscal Year Ending December 31,	<i>Governmental Activities</i>					
	Bonds Payable		Capital Lease Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 55,000	\$ 33,735	\$ 6,365	1,603	\$ 61,365	\$ 35,338
2014	65,000	30,881	6,732	1,235	71,732	32,116
2015	70,000	27,507	7,121	846	77,121	28,353
2016	75,000	23,874	6,933	435	81,933	24,309
2017	85,000	19,982	-0-	-0-	85,000	19,982
2018-2020	<u>300,000</u>	<u>32,178</u>	<u>-0-</u>	<u>-0-</u>	<u>300,000</u>	<u>32,178</u>
Totals	<u>\$ 650,000</u>	<u>\$ 168,157</u>	<u>\$ 27,151</u>	<u>\$ 4,119</u>	<u>\$ 677,151</u>	<u>\$ 172,276</u>

Fiscal Year Ending December 31,	<i>Business-type Activities</i>			
	Bonds Payable		Total	
	Principal	Interest	Principal	Interest
2013	102,000	\$ 83,119	\$ 102,000	\$ 83,119
2014	104,000	87,084	104,000	87,084
2015	111,000	83,036	111,000	83,036
2016	111,000	80,159	111,000	80,159
2017	117,000	77,055	117,000	77,055
2018-2022	642,000	331,035	642,000	331,035
2023-2027	726,000	217,917	726,000	217,917
2028-2032	221,000	89,173	221,000	89,173
2033-2037	144,000	46,170	144,000	46,170
2038-2040	<u>105,000</u>	<u>10,163</u>	<u>105,000</u>	<u>10,163</u>
Totals	<u>\$2,383,000</u>	<u>\$1,104,911</u>	<u>\$2,383,000</u>	<u>\$1,104,911</u>

7. **Debt - continued**

Revenue Bond Covenant Compliance

As stated in the ordinance authorizing the issuance of general obligation bonds (bonds accounted for in the debt service fund) and revenue bonds (bonds accounted for in the enterprise fund), the City is required to establish and maintain separate bond reserve accounts for each bond issue. These bond reserve accounts are used to accumulate resources set aside to make up potential future deficiencies in the revenue bond interest and sinking account. These reserve requirements, as stated in the original bond ordinances, are as follows:

City of East Tawakoni

Waterworks and Sewer System Jr. Lien Revenue, Series 1974

Reserve Requirement	\$40,800
Account Balance at year-end	<u>44,734</u>
Excess	<u>\$ 3,934</u>

City of East Tawakoni

Tax and Waterworks and Sewer System Surplus Revenue
Certificates of Obligation, Series 2000

Reserve Requirement	\$ 19,555
Account Balance at year-end	<u>39,217</u>
Excess	<u>\$ 19,662</u>

City of East Tawakoni

Tax and Water and Sewer System Surplus Revenue
Certificates of Obligation, Series 2006

Reserve Requirement	\$ 46,606
Account Balance at year-end	<u>49,217</u>
Excess	<u>\$ 2,611</u>

City of East Tawakoni

Tax and Water and Sewer System Surplus Revenue
Certificates of Obligation, Series 2010

Reserve Requirement	\$ 32,131
Account Balance at year-end	<u>44,217</u>
Excess	<u>\$ 12,086</u>

City of East Tawakoni

General Obligation Bonds, Series 2004

Reserve Requirement	\$ 44,368
Account Balance at year-end	<u>124,201</u>
Excess	<u>\$ 79,833</u>

8. Retirement 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 from TMRS' website at www.TMRS.com.

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

	Plan Year	
	2012	2011
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/25	60/10, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are at 100% of the employee's accumulated contributions. In addition, the City can grant as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

8. Retirement Plan - continued

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Annual Pension Cost

For the year ended December 31, 2012, the government's annual pension cost of \$18,992 for TMRS was equal to the government's required and actual contributions.

Three Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage Of APC <u>Contributed</u>	Actual Contributions <u>Made</u>	Net Pension Obligation <u>(Asset)</u>
12/31/10	\$29,961	100%	29,961	-0-
12/31/11	\$18,893	100%	18,893	-0-
12/31/12	\$18,992	100%	18,992	-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 actuarial 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 Amortization Period	23.3 years; closed period	22.3 years; closed period	20.1 years; closed period
Amortization Period for new Gains/Losses	25 years	15 years	12 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Valuation Date	12/31/2009	12/31/2010	12/31/2011
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%

8. Retirement Plan - continued

Funded Status and Funding Progress

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	\$205,330	\$323,253	63.5%	\$117,923	\$240,310	49.1%
12/31/10	\$477,540	\$577,722	82.7%	\$100,182	\$243,573	41.1%
12/31/11	\$504,566	\$612,555	82.4%	\$107,989	\$209,455	51.6%

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

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

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. A general description of the SDBF can be found in the footnotes of the TMRS comprehensive annual financial report which can be obtained as noted in the "plan description" section above.

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

Contributions

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

The City's contributions to the TMRS SDBF for the year ended 2012, 2011, and 2010 were \$525, \$670, and \$853, respectively, which equaled the required contributions each year.

9. Litigation

The City is involved in litigation arising in the ordinary course of business. It is management's belief that any liability resulting from such litigation would not be material in relation to the City's financial position.

10. Commitments and Contingencies

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs for the year ended December 31, 2012 have not been conducted. Accordingly, the City's compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

The City has entered into a contract for garbage collection services with Duncan Disposal. During fiscal year 2012, the City spent \$106,964 on garbage collection services.

The City has entered into a contract for purchase of water with City of Emory, Texas. The contract was signed for a 40 year period on June 12, 1973. During fiscal year 2012, the City spent \$196,281 on water purchases.

The City has entered into a Street Improvement Project with East Tawakoni Economic Development Corporation (ETEDC). ETEDC has committed \$244,224 to support the Street Improvement Project. ETEDC agrees to pay \$24,000 for 10 years commencing on June 30, 2005 and terminating on June 30, 2014.

During fiscal year 2010 the City approved a 2010 bond issue in the amount of \$1,000,000 through Texas Water Development Board for a drinking water capital improvements project. The issue is drawn as construction progresses on the project. The City had drawn \$645,000 of the issue and paid \$15,000 in bond principal payments as of December 31, 2012. Therefore, the outstanding balance was \$630,000 at year-end. The City's future debt service requirements once the issue is drawn in the full amount of \$1,000,000 is as follows:

Fiscal Year Ending December 31,	Bonds Payable		Total	
	Principal	Interest	Principal	Interest
2013	\$ 25,000	\$ 15,632	\$ 25,000	\$ 15,632
2014	25,000	17,001	25,000	17,001
2015	35,000	16,676	35,000	16,676
2016	30,000	16,195	30,000	16,195
2017	35,000	15,573	35,000	15,573
2018-2022	180,000	64,856	180,000	64,856
2023-2027	190,000	35,968	190,000	35,968
2028-2030	465,000	1,980	465,000	1,980
Totals	\$ 985,000	\$ 183,881	\$ 985,000	\$ 183,881

11. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as “due to/from other funds” in the fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

Outstanding balances between the City’s General Fund and its Debt Service Fund include M&O property tax collections deposited into the Debt Service Fund at year-end that will be transferred to the General Fund after the end of the year.

Outstanding balances between the City’s General Fund and its Water and Sewer Fund include funds for general operating expenditures that will transferred to the Water and Sewer Fund after the end of the year.

Outstanding balances between the City’s General Fund and its component units reported as “due from primary government” and “due to component unit” include sales tax collections received or due to the City at year-end that will be transferred to the component unit after the end of the year.

The following schedule reports receivables and payables within the reporting entity at year-end:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 26,492	\$ 5,201
Component Unit	5,201	
Water and Sewer Fund		6,621
Debt Service Fund		<u>19,871</u>
	<u>\$ 31,693</u>	<u>\$ 31,693</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purpose of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within governmental activities.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 31,915	\$
Enterprise Fund		31,748
Capital Projects Fund		167
ETEDC		24,000
Debt Service Fund	<u>24,000</u>	
	<u>\$ 55,915</u>	<u>\$ 55,915</u>

12. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of East Tawakoni, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of East Tawakoni, Texas and the surrounding area.

13. Segment Information

The City issues revenue bonds to support water and sewer services. The fund financial statements report a major fund with revenue supported debt for the Proprietary fund (Water and Sewer/ Enterprise Fund). Services provided by this fund are described in Note 1(D).

Summarized segment financial information for water and sewer activities reported in this fund as of and for the year ended December 31, 2012 is presented as follows:

Condensed Statement of Fund Net Position

Assets	
Current assets	\$ 458,932
Capital assets, net	3,634,410
Other Assets	<u>8,685</u>
Total assets	<u>4,102,027</u>
Liabilities	
Current liabilities	395,870
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	254,530
Unrestricted	<u>(146,037)</u>
Total net position	<u>\$ 1,359,903</u>

**Condensed Statement of Revenues,
Expenses, and Changes in Fund
Net Position**

Water and sewer operating revenues	\$ 871,287
Depreciation and amortization expense	(147,308)
Other operating expense	<u>(586,309)</u>
Operating income	<u>137,670</u>
Nonoperating revenues (expenses):	
Interest expense	(74,322)
Interest income	299
Capital grants	33,030
Transfers	<u>(31,748)</u>
Change in net position	<u>64,929</u>
Beginning net position - restated	<u>1,294,974</u>
Ending net position	<u>\$1,359,903</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:	
Operating activities	\$ 335,273
Noncapital financing activities	(26,362)
Capital and related financing activities	(99,055)
Investing activities	<u>87</u>
Net increase (decrease) in cash and cash equivalents	209,943
Beginning cash and cash equivalents	<u>100,042</u>
Ending cash and cash equivalents	<u>\$ 309,985</u>

REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF EAST TAWAKONI, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Ad valorem taxes	\$ 140,625	\$ 140,625	\$ 133,024	\$ (7,601)
Franchise taxes	38,234	38,234	30,468	(7,766)
Sales taxes	75,000	75,000	48,639	(26,361)
Permits	2,855	2,855	4,060	1,205
Fines and other fees	31,960	31,960	38,809	6,849
ETCOG grant revenue	-	-	11,948	11,948
Other income	4,365	4,365	8,905	4,540
Interest income	3,500	3,500	-	(3,500)
Total Revenues	<u>296,539</u>	<u>296,539</u>	<u>275,853</u>	<u>(20,686)</u>
EXPENDITURES:				
Current:				
Administration	101,799	101,799	83,840	17,959
Public safety and judicial services	114,709	114,709	177,111	(62,402)
Debt Service:				
Principal retirement	6,618	6,618	6,618	-
Interest and fiscal charges	1,350	1,350	1,350	-
Capital Outlay	-	-	39,405	(39,405)
Total Expenditures	<u>224,476</u>	<u>224,476</u>	<u>308,324</u>	<u>(83,848)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>72,063</u>	<u>72,063</u>	<u>(32,471)</u>	<u>(104,534)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	36,000	36,000	31,915	(4,085)
Total Other Financing Sources (Uses)	<u>36,000</u>	<u>36,000</u>	<u>31,915</u>	<u>(4,085)</u>
Excess (deficiency) of revenues over (under) expenditures and other uses	<u>108,063</u>	<u>108,063</u>	<u>(556)</u>	<u>(108,619)</u>
Fund balance, beginning of year	<u>106,879</u>	<u>106,879</u>	<u>106,879</u>	<u>-</u>
Fund balance, end of year	<u>\$ 214,942</u>	<u>\$ 214,942</u>	<u>\$ 106,323</u>	<u>\$ (108,619)</u>

SUPPLEMENTARY SCHEDULES
(UNAUDITED)

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF PROPERTY TAX RECEIVABLE
YEAR ENDED DECEMBER 31, 2012 (Unaudited)**

<u>Tax Roll Year</u>	<u>Fiscal Year Ended December 31</u>	<u>Outstanding Balance 12/31/12</u>
2012	2012	\$ 79,638
2011	2011	5,248
2010	2010	2,401
2009	2009	1,092
2008	2008	1,267
2007	2007	921
2006	2006	500
2005	2005	168
2004	2004	154
2003	2003	129
2002	2002 and prior	58
	Allowance for uncollectible taxes	<u>(8,979)</u>
	Property taxes receivable, net	\$ <u><u>82,597</u></u>

CITY OF EAST TAWAKONI, TEXAS
HISTORICAL SCHEDULE OF ASSESSED PROPERTY VALUATION (NET)
YEAR ENDED DECEMBER 31, 2012 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended December 31</u>	<u>Net Taxable Valuation</u>
2012	2012	40,501,258
2011	2011	40,830,046
2010	2010	41,467,035
2009	2009	41,800,792
2008	2008	41,464,197
2007	2007	37,132,729
2006	2006	36,171,675
2005	2005	34,995,816
2004	2004	31,886,663
2003	2003	27,536,155

**CITY OF EAST TAWAKONI, TEXAS
HISTORICAL SCHEDULE OF PROPERTY TAX RATES
YEAR ENDED DECEMBER 31, 2012 (Unaudited)**

Tax Roll Year	Fiscal Year Ended December 31	Tax Rates
2012	2012	0.5431
2011	2011	0.5431
2010	2010	0.4988
2009	2009	0.4709
2008	2008	0.4522
2007	2007	0.4302
2006	2006	0.3827
2005	2005	0.3628
2004	2004	0.3188
2003	2003	0.2946

**COMPLIANCE AND
INTERNAL CONTROLS SECTION**

SCOTT, SINGLETON, FINCHER AND COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

4815-A KING STREET
TELEPHONE 903-455-4765
FAX 903-455-5312
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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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 and have issued our report thereon dated July 30, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2012-1 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of East Tawakoni, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-2.

City of East Tawakoni, Texas' Response to Findings

City of East Tawakoni, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of East Tawakoni, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

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

July 30, 2013

SCOTT, SINGLETON, FINCHER AND COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

4815-A KING STREET
TELEPHONE 903-455-4765
FAX 903-455-5312
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

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited City of East Tawakoni, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of East Tawakoni, Texas' major federal programs for the year ended December 31, 2012. City of East Tawakoni, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of East Tawakoni, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of East Tawakoni, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of East Tawakoni, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, City of East Tawakoni, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of City of East Tawakoni, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of East Tawakoni, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of East Tawakoni, Texas' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

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

July 30, 2013

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012**

Summary of Auditor's Results

1. An unqualified opinion was issued on the basic financial statements.
2. We reported one material weaknesses in internal control related to the financial statements.
3. We reported no instances of noncompliance that would be material to the financial statements of the City.
4. We reported no significant deficiencies or material weaknesses in internal control over major federal programs.
5. An unqualified opinion was issued on compliance with major federal programs.
6. Our audit procedures disclosed one audit finding required to be reported under OMB Circular A-133, paragraph .510(a).
7. The following program was audited as a major program:

Capitalization Grants for Drinking Water State Revolving Funds originating with the Environmental Protection Agency- CFDA 66.468 passed through the Texas Water Development Board.
8. The dollar amount used to distinguish between Type A and Type B federal programs - \$300,000.
9. The auditee was not considered as a low-risk auditee under OMB Circular A-133.

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012**

Findings and Questioned Costs
Relating to the Financial Statements which are
Required to be Reported in Accordance with
Government Auditing Standards

Current Year Findings:

Item 2012-1: Material Weakness Relating to Controls over Financial Reporting

Criteria:

The City is responsible for the preparation of financial statements that are fairly presented in accordance with U.S. generally accepted accounting principles.

Condition:

Entities lacking the financial resources and or ability to employ or otherwise engage individuals with sufficient training in accounting to prepare the financial statements and the related disclosures have a control weakness related to financial statement preparation. During our audit procedures we identified adjusting entries that were material to the financial statements of the City of East Tawakoni, Texas that were required to present the financial statements in accordance with U.S. generally accepted accounting principles. Many of these entries related to accounting for capital assets and related depreciation, accounts receivable activity, interfund activity, and accounts payable activity, but other significant entries were required as well.

Questioned Costs:

None noted.

Context:

The City's net results combined for all funds prior to any adjustments being identified and posted to the financial statements was (\$233,370). After all adjustments were identified and posted to the financial statements net results combined for all funds increased to \$84,415. This was a net change of \$317,785.

Effect:

Significant audit adjustments identified at year-end prohibit the City's ability to produce financial information on an ongoing basis in order to budget and plan operations effectively and present financial statements in accordance with U.S. generally accepted accounting principles.

Cause:

Due to budget limitations the City has limited accounting staff in place that have the ability to maintain the financial statements in accordance with U.S. generally accepted accounting principles.

Recommendation:

It is the responsibility of management to assure that financial statements are prepared in accordance with U.S. generally accepted accounting principles. Procedures should be implemented that assure financial information is presented on a monthly basis in accordance U.S. with generally accepted accounting principles.

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012**

Findings and Questioned Costs
Relating to the Financial Statements which are
Required to be Reported in Accordance with
Government Auditing Standards

Current Year Findings:

Management Response:

The City has contracted with a consultant in 2013 to provide training and assistance with financial reporting in order to present financial information in accordance with U.S. generally accepted accounting principles.

Contact: Sue Florey, City Secretary Phone: 903-447-2444

Item 2012-2: Compliance with the Public Funds Investment Act

Criteria:

Texas Government Code Chapter 2256. Public Funds Investment requires the treasurer, the chief financial officer, and the investment officer of the entity to attend at least one training session relating to responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties, and to attend an investment training session not less than once in a two-year period and receive not less than 10 hours of qualified training. In addition, the governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written ordinance or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to the investment policy or investment strategies. Also, not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all investment funds in accordance with the Public Funds Investment Act.

Condition:

During the previous two years ending December 31, 2012, the City's Investment Officer did not receive the required amount of investment training. In addition, the City did not perform an annual review of the investment policy and did not present quarterly investment reports to the City Council.

Questioned Costs:

None noted.

Context:

The City investments consist of certificates of deposits in financial institutions. These amounts totaled \$47,942 at year-end.

Effect:

The City is not in compliance with the Public Funds Investment Act.

Cause:

This was a result of oversight by management.

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2012**

Findings and Questioned Costs
Relating to the Financial Statements which are
Required to be Reported in Accordance with
Government Auditing Standards

Current Year Findings:

Recommendation:

We recommend that the City's investment officer ensure that the minimum of 10 hours in a two year period of investment training be obtained in the future. In addition, we recommend the City review its investment policy and make revisions to the policy as considered necessary on an annual basis. We also recommend the City's investment officer present quarterly investment reports to the City Council or investment committee on behalf of the Council in accordance with the Public Funds Investment Act.

Management Response:

The City Secretary has registered to attend a Public Funds Investment Workshop in August 2013 in order to meet compliance with the required investment training. The City will review its investment policy and make any revisions necessary in 2013 and then on at least an annual basis. The City Secretary will present quarterly investment reports to the Council in accordance with the Public Funds Investment Act.

Contact: Sue Florey, City Secretary Phone: 903-447-2444

Follow-up on Prior Year Findings:

None

Findings and Questioned Costs
Relating to Federal Awards
Required to be Reported in Accordance with
OMB Circular A-133

Current Year Findings:

None

Follow-up on Prior Year Findings:

None

**FEDERAL
EXPENDITURES SECTION**

**CITY OF EAST TAWAKONI, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	TOTAL EXPENDITURES
FEDERAL AWARDS			
Environmental Protection Agency:			
Passed through Texas Water Development Board:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Loan ID L00089 Project ID 61743	<u>731,383</u>
Total Passed through Texas Water Development Board			<u>731,383</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>731,383</u>
U.S. Department of Energy:			
Passed through Texas Comptroller of Public Accountants:			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-EE0000893	<u>23,030</u>
Total Passed through Texas Comptroller of Public Accountants			<u>23,030</u>
TOTAL U.S. DEPARTMENT OF ENERGY			<u>23,030</u>
U.S. Department of Homeland Security (FEMA):			
Passed through Texas Department of Public Safety:			
Homeland Security Grant Program	97.067	EMW-2011-SS-00019	<u>11,948</u>
Total Passed through Texas Department of Public Safety			<u>11,948</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY (FEMA)			<u>11,948</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 766,361</u>

**CITY OF EAST TAWAKONI, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all applicable federal financial assistance programs of City of East Tawakoni, Texas. The City of East Tawakoni, Texas ("City") reporting entity is defined in Note 1 to the City's basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the Schedule of Expenditures of Federal Awards (Note 3).

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for the General fund federal award program and on the full accrual basis of accounting for the Enterprise fund federal award programs. The modified accrual basis of accounting and the full accrual basis of accounting are described in Note 1 of the City's basic financial statements.

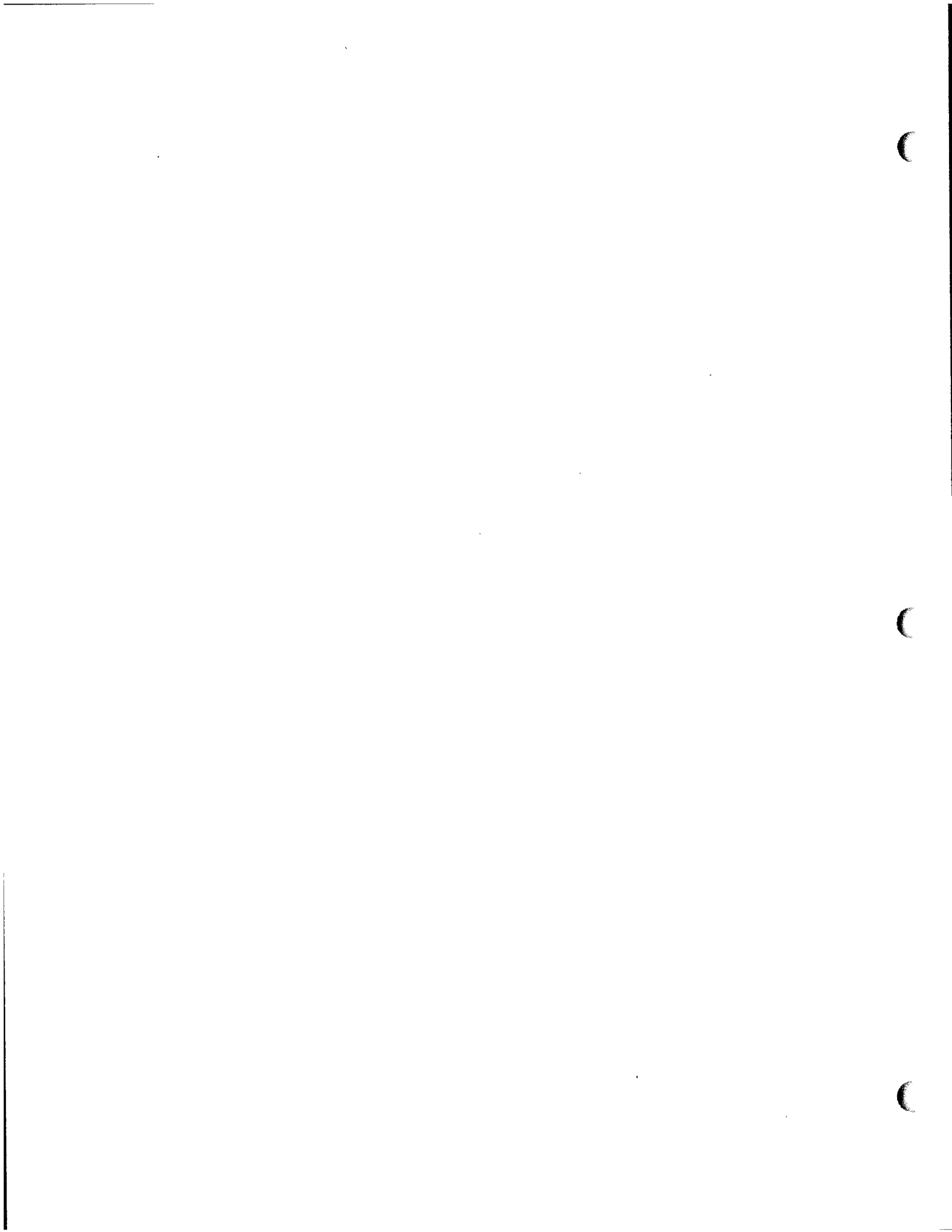
The format for the accompanying schedule includes revenue recognized in the City's basic financial statements.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance programs are reported in the City's basic financial statements in the General Fund and Enterprise Fund.

NOTE 4. PROGRAM OR AWARD AMOUNTS

Amounts include contract/award amounts plus any additional reimbursement monies received in fiscal year 2012.



CD ATTACHED

PLEASE SEE CENTRAL RECORDS

FOR ANY QUESTIONS

PLEASE CALL **CR** MAIN LINE

(512) 936-7180

OVERSIZED MAP(S)

TO VIEW OVERSIZED MAP(S)
PLEASE GO TO
CENTRAL RECORDS

FOR ANY QUESTIONS
PLEASE CALL *CR* MAIN LINE
(512) 936-7180