

ARTICLE VI

GENERAL PROVISIONS

Section 6.01. **FORCE MAJEURE.** In case by reason of "Force Majeure" the District or any Participant shall be rendered unable wholly or in part to carry out its obligations under this agreement, then if such party shall give notice and full particulars of such "Force Majeure" in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure (with the exception of the obligation of each Participant to make the payments required in Section 5.03 of this Contract, which in all events shall be made as provided therein) shall be suspended during the continuance of the inability then claimed, but for no longer periods, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein, shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipe lines or canals, partial or entire failure of water supply, and inability on the part of a Participant to provide water necessary for operation of its water and Local Wastewater Facilities hereunder, or of the District to receive Wastewater on account of any other causes not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of the opposing party or parties when such settlement is unfavorable to it in the judgment of the party having the difficulty.

Section 6.02. **INSURANCE.** The District will carry insurance (including self-insurance) for such purposes and in such amounts as are determined by the District to be necessary or advisable.

Section 6.03. **REGULATORY BODIES.** This Contract shall be subject to all valid rules, regulations and laws applicable hereto passed or promulgated by the United States of America, the State of Texas, or any authorized representative or agency of any of them.

Section 6.04. **EFFLUENT REUSE:** (a) The District will make the effluent discharge from its Wastewater treatment plants available for any lawful and beneficial reuse purpose, and a charge shall be made to the customer receiving such effluent sufficient to cover any additional cost involved in providing the service, plus a reasonable portion of the cost of treating the Wastewater which produced such effluent; provided that such portion of the cost allocable to treatment shall not be required to exceed an amount which would, in the judgment of the District, render the use of such effluent by a customer economically infeasible.

(b) Notwithstanding the provisions of subsection 6.04(a), each Participant shall have the first right to use all effluent produced from its Wastewater for reuse solely for its own municipal

purposes without any charge except for any additional costs to the District necessary to provide the effluent for such municipal use.

Section 6.05. ANNUAL AUDIT OF SYSTEM. The District shall, at the close of each Fiscal Year, commencing with the fiscal year beginning October 1, 2003, cause an annual audit of the System to be prepared.

Section 6.06. PUBLICATIONS, REFERENCE WORKS, GOVERNMENTAL REGULATIONS. In each instance herein where reference is made to a publication, reference work or Federal or State regulation, it is the intention of the parties that at any given time the then current edition of any such publication of reference work or Federal or State regulation shall apply. If a publication or reference work is discontinued or ceases to be the generally accepted work in its field or if conditions change or new methods or processes are implemented by the District, new standards shall be adopted which are in compliance with State and Federal laws and any valid rules and regulations issued pursuant thereto.

Section 6.07. OPERATION OF THE SYSTEM. The District covenants that it will operate and maintain the System in accordance with accepted good business and engineering practices.

ARTICLE VII

DISTRICT ANNUAL BUDGET

Section 7.01. FILING WITH PARTICIPANT. (a) Not less than sixty (60) days before the commencement of each Fiscal Year while this Contract, is in effect, the District shall cause its tentative budget for operation and maintenance of the System for the ensuing Fiscal Year to be prepared and a copy thereof filed with each Participant. If no protest or request for a hearing on such tentative budget is presented to the District within thirty (30) days after such filing of the tentative budget by one or more Participants, the tentative budget for the System, when adopted by the District's Board of Directors, shall be considered for all purposes as the "Annual Budget" for the ensuing Fiscal Year. But if a protest or request for a hearing is duly filed, it shall be the duty of the District to fix the date and time for a hearing on the tentative budget. The Board of Directors of the District shall consider the testimony and showings made in such hearing. The Board of Directors of the District may adopt the budget or make such amendments thereof as to it may seem proper. The budget thus approved by the Board of Directors of the District shall be the Annual Budget for the next ensuing Fiscal Year.

(b) The Annual Budget may be amended to provide for transfers of budgeted funds between expenditure accounts, provided however that said transfers do not result in an overall increase in budgeted funds as provided in the Annual Budget. The Annual Budget may be amended and increased through formal action by the Board of Directors of the District, if required. Certified copies of any amended Annual Budget and the resolution authorizing same shall be filed immediately by the District with each Participant.

ARTICLE VIII

THE SYSTEM

Section 8.01. OTHER CONTRACTS BETWEEN THE DISTRICT AND THE PARTICIPANTS. Nothing contained in this Contract shall in any way affect any payments to the District by a Participant or rates charged by the District to such Participant for the providing of water, wastewater or other services or facilities pursuant to other contractual relationships between the District and such Participant.

Section 8.02. DISTRICT CONTRACTS WITH ADDITIONAL PARTICIPANTS. (a) The District reserves the right to contract with subsequent Additional Participants to provide the services of the System to such Additional Participants; provided that the terms and provisions of such contracts with Additional Participants shall be, to the extent practicable and applicable, the same as the terms and provisions of this Contract except that with respect to any Local Wastewater Facilities of such Additional Participant which are to be acquired, operated, or used by the District as a part of the System as a result of such contract, the District and the Additional Participant may agree in such contract for mutually acceptable payments in connection therewith from Bond proceeds or as an Operation and Maintenance Expense of the System (provided that in any formula used for determining such payments, the value attributed to such Local Wastewater Facilities shall not exceed a sum equal to the principal amount of all then outstanding bonds or other obligations issued by the Additional Participant to acquire and construct such Local Wastewater Facilities), and except that such contract shall provide for payments calculated on the basis of adequate minimum flows as hereinafter provided. The District shall not enter into contracts for any services by the System except with persons which become Additional Participants, or as otherwise provided in this Contract.

(b) A Person may become an Additional Participant in the following manner and under the following conditions;

- (i) A formal request must be submitted to the District furnishing information on the area to be served, a description of existing facilities, and the latest annual audit of such proposed Additional Participant's waterworks and/or sewer systems, if any.
- (ii) Such proposed Additional Participant must provide funds for any necessary engineering studies if funds are not available from the appropriate Federal or State agencies. The preliminary studies must determine or estimate, for the ensuing five year period, the size and type of any proposed facilities, their estimated cost, and estimated flows of Wastewater, so as to enable the District to ascertain or estimate the requirements of the proposed Additional Participant for the ensuing five year period.

(c) Each Additional Participant must agree to make minimum payments under its contract, on the basis of estimated annual minimum flows, that would provide amounts annually at least sufficient, as determined by the District, to pay such Additional Participant's proportionate share of the Annual Requirement.

(d) The provisions of this Section and the payments to be made under an Additional Participant's contract are further subject to the provisions of Section 5.03 of this Contract.

Section 8.03. **USE OF EXCESS CAPACITY.** Notwithstanding any other provisions of this Contract, the District may provide any excess available capacity or service of the System to any Person; provided that such service does not interfere with or impair the rights of any Participant under this Contract, and any such service shall in all events be subordinate and subject to such rights; and provided further that the District must charge for such service in amounts at least sufficient to pay all Operation and Maintenance Expense attributable thereto plus an amount which will produce an estimated reasonable allocation as determined by the District, to be credited to the Bond Service Component of the Annual Requirement, plus an additional amount of not less than 20% of the foregoing to cover prior incurred costs. The District is not authorized to issue Bonds, as defined in this Contract, to provide the services of the System to any persons other than Participants (including Additional Participants).

ARTICLE IX

REMEDIES

Section 9.01. **LEGAL AND EQUITABLE.** Any party to this Contract, and any holder of the District's Bonds, may require any party hereto, and its officials and employees, to carry out, respect, and enforce the covenants and obligations of this Contract, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against such party, and its officials and employees.

ARTICLE X

CONTINUING DISCLOSURE OF INFORMATION

Section 10.01. **PARTICIPANTS TO COMPLY.** The Participants shall comply or, upon request of the District, shall provide to the District such information as will enable the District to comply, with any continuing disclosure requirements with respect to the Bonds imposed by Securities and Exchange Commission Rule 15c2-12.

ARTICLE XI

EFFECTIVE DATE AND TERM

Section 11.01. **EFFECTIVE DATE.** This Contract shall become effective as of the date of execution hereof.

Section 11.02. **TERM OF CONTRACT.** This Contract shall continue in force from the effective date hereof at least until all Bonds, including any Bonds issued to refund same, shall have been paid in full; and shall also remain in force thereafter throughout the useful life of the System.

ARTICLE XII

NOTICES

Section 12.01. **NOTICES.** Any notice, request or other communication under this Contract shall be given in writing and shall be deemed to have been given by either party to the other party at the addresses shown below upon any of the following dates:

(a) The date of notice by telefax, telecopy, or similar telecommunications, which is confirmed promptly in writing;

(b) Three business days after the date of the mailing thereof, as shown by the post office receipt if mailed to the other party hereto by registered or certified mail;

(c) The date of actual receipt thereof by such other party if not given pursuant to (a) or (b) above.

The address for notice for each of the parties shall be as follows:

North Texas Municipal Water District
505 East Brown Street
Wylie, Texas 75098
Attention: Executive Director and General Manager
Fax #: (972) 442-5405

City of Royse City, Texas
100 West Main Street
Royse City, Texas 75189
Attention: City Manager
Fax #: (972) 635-2434

City of Fate, Texas
105 E. Fate Main Place
Fate, Texas 75132
Attention: City Manager
Fax #: (972) 771-4601

or the latest address specified by such other party in writing.

ARTICLE XIII

SEVERABILITY

Section 13.01. SEVERABILITY. If any clause, provision or Section of this Contract should be held illegal or invalid by any court, the invalidity of such clause, provision or Section shall not affect any of the remaining clauses, provisions or Sections hereof and this Contract shall be construed and enforced as if such illegal or invalid clause, provision or Section had not been contained herein. In case any agreement or obligation contained in this Contract should be held to be in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of the Participants or the District, as the case may be, to the full extent permitted by law.

ARTICLE XIV

MODIFICATION

Section 14.01. MODIFICATION. This Contract may be changed or modified only with the consent of the governing bodies of the District and the affected Participant or Participants. No such change or modification may be made which will affect adversely the prompt payment when due of all moneys required to be paid by the Participants under the terms of this Contract.

ARTICLE XV

VENUE

Section 15.01. VENUE. All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Collin County, Texas, which is the County in which the principal administrative offices of the District are located. It is specifically agreed among the parties to this Contract that Collin County, Texas, is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Collin County, Texas.

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the 3rd day of March, 2003, which is the date of this Contract.

NORTH TEXAS MUNICIPAL WATER DISTRICT

By: Bobby Robinson
President, Board of Directors

ATTEST:

Joe Farmer
Secretary, Board of Directors

(SEAL)

CITY OF ROYSE CITY, TEXAS

By: Hugh Chaney
Mayor

ATTEST:

Brenda Craft
City Secretary

(SEAL)

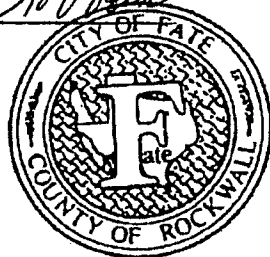
CITY OF FATE, TEXAS

By: Lynda H. Delbert
Mayor *Pro Tem*

ATTEST:

Sandra Tolbert
City Secretary

(SEAL)



Attachment K

Description of City's Ability to Provide Adequate Services; Effect on Land of City's Application

The map labeled "Wastewater Collection System Master Plan Map," included in this Application as Attachment C, shows the major and minor basin areas for Royse City and the surrounding areas. Prepared in 2010, this Master Plan Map indicates that as long ago as October 2010, the City was preparing to provide retail wastewater utility services to all of the areas included within this Application. When compared to the actual facilities map (included in Attachment G), it can be seen that the City has followed through on its Master Plan, and has installed most of the facilities identified in the plan.

Currently, the requested area is rural, trending to suburban land uses. The City anticipates that the continued growth of the Dallas/Fort Worth Metroplex will continue to push growth in the Royse City area. Although most of the growth in the past few years has been in residential developments, the City is beginning to see more commercial and industrial projects in the area.

The granting of the certificate will benefit the land within the proposed CCN area. The obligations imposed on the CCN holder by the CCN, *i.e.*, to provide continuous and adequate sewer utility service, provides a level of confidence to landowners, both existing and future, that their wastewater collection and treatment needs will be met in an organized and competent manner. In turn, this confidence will support and foster more economic growth in the area immediately surrounding the City. This economic growth will then encourage the City to annex into its ETJ, thereby providing the full panoply of municipal services to an area currently unserved.

Attachment L

**Financial Report for City of Royse City
(Fiscal Year Ended September 30, 2013)**



City Of Royse City, Texas

**Annual
Financial Report**

Fiscal Year Ended September 30, 2013

ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2013

City of Royse City, Texas

City Manager
Carl Alsabrook

Chief Financial Officer
Joe Stegall

RC
Royse City
A Friendly Touch of Texas

**CITY OF ROYSE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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Royse City

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FINANCIAL SECTION





Michael Conway, CPA
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CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

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Greenville, Texas 75404-8234

Member
American Institute of CPAs
Texas Society of CPAs

March 25, 2014

Independent Auditor's Report

Mayor and City Council
City of Royse City
Royse City, Texas

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Royse City, Texas ("City") as of and for the year ended September 30, 2013, 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.

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Fax (903) 454-3181

603 South Goliad Street
Rockwall, Texas 75087
Office (972) 771-1065
Fax (972) 771-1022

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 Royse City, Texas, as of September 30, 2013, 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, the General Fund budgetary comparison schedule and the TMRS Funding Progress and Contributions on pages 7 to 17, 53 and 54 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Royse City, Texas' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2014, on our consideration of the City of Royse City, 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 Royse City, Texas' internal control over financial reporting and compliance.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

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CITY OF ROYSE CITY, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

As management of the City of Royse City ("City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$10,392,715 (net position). Of this amount, \$2,259,778 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. A total of \$5,523,636, or 53%, is invested in capital assets which does not directly generate revenue and is not available to generate liquid capital. Net position restricted for specific purposes total \$2,609,301, or 25%, of total net position.
- The government's total net position increased by \$1,919,794, excluding prior period adjustments, due to increases in both the governmental activities and business-type activities. The increase in governmental activities is due to increases in sales tax revenues and property tax revenues, business-type activities charges for services increased significantly.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$1,852,926, an increase of \$125,454, excluding prior period adjustments, in comparison with the prior year. The increase in combined ending fund balances is attributable to an increase in total revenues of 2%, or \$108,565. Approximately 22% of total fund balance, or \$415,011, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of \$416,608 was 7% of total General Fund expenditures for the fiscal year. The increase in the total General Fund balance was largely due to increased revenues.
- The City's total long-term debt increased by \$666,687, or 3%, during the current fiscal year, mainly due to the issuance of Certificates of Obligation, Series 2013 in the amount of \$1,585,000.

Overview of the Financial Statements

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

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

Basic Financial Statements

The first two statements (pages 21-23) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 24-30) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** (beginning on page 31). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 53-54) is provided to show details about the City's budgetary schedule for the General Fund and the funding progress and contributions for the pension plan.

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

The government-wide financial statements are on pages 21 - 23 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Royse City, like all

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The Budgetary Comparison Schedule for the General Fund uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 24-27 of this report. The General Fund Budgetary Comparison Schedule can be found on page 53.

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

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

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 31 of this report.

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's General Fund budgetary comparison information and progress in funding its obligation to provide pension benefits to its employees. This information begins on page 53 of this report.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

New GASB Pronouncements

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements" was issued to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34" modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The statement also amends the criteria for blending component units and provides additional guidance for blending a component unit if the primary government is a business-type activity and clarifies the reporting of equity interests in legally separate organizations. The implementation of this statement had no effect on the financial statements.

The GASB has issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement" incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures. The implementation of this statement had no effect on the financial statements.

The GASB issued the following statements which will be effective in future years as described below:

GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62", will be implemented by the City as required by GASB during the fiscal year ending September 30, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financial activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on equipment and operating leases. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25", will be implemented as required by GASB during the fiscal year ending September 30, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", will be implemented as required by GASB during the fiscal year September 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information on the contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosure and required supplementary information requirement about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2013**

City of Royse City's Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,354,418	\$ 1,833,033	\$ 5,398,828	\$ 4,541,660	\$ 7,753,246	\$ 6,374,693
Capital assets	10,474,267	10,672,990	15,205,678	14,352,468	25,679,945	25,025,458
Total assets	12,828,685	12,506,023	20,604,506	18,894,128	33,433,191	31,400,151
Current liabilities	432,630	260,273	568,934	1,302,269	1,001,564	1,562,542
Long-term liabilities	8,669,677	9,189,570	13,369,235	12,175,118	22,038,912	21,364,688
Total liabilities	9,102,307	9,449,843	13,938,169	13,477,387	23,040,476	22,927,230
Net position:						
Net investment in capital assets	1,891,718	1,583,387	3,631,918	2,792,057	5,523,636	4,375,444
Restricted	1,376,938	1,225,871	1,232,363	2,145,345	2,609,301	3,371,216
Unrestricted	457,722	246,922	1,802,056	479,339	2,259,778	726,261
Total net position	\$ 3,726,378	\$ 3,056,180	\$ 6,666,337	\$ 5,416,741	\$ 10,392,715	\$ 8,472,921

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of the City exceeded liabilities by \$10,392,715 as of September 30, 2013.

Investment in capital assets:

The City's net position increased by \$1,919,794 for the fiscal year ended September 30, 2013. However, a large portion, 53%, reflects the City's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

Restricted net position represents 25% of total net assets that are subject to external restrictions on how they may be used, or restrictions by enabling legislation. The restricted net position is comprised of (a) \$1,114,886 for debt service, (b) \$1,184,237 for impact fee use, (c) \$310,178 for other state imposed restrictions.

Unrestricted net position:

Unrestricted net position in the amount of \$2,259,778 is available to fund the City programs to citizens and creditors.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2013**

City of Royse City's Changes in Net Position

	Governmental Activities		Business Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,552,684	\$ 1,616,796	\$ 4,650,615	\$ 4,198,626	\$ 6,203,299	\$ 5,815,422
Operating Grants and Contributions	92,983	113,114	-	-	92,983	113,114
Capital Grants and Contributions	132,934	-	741,077	-	874,011	-
General Revenues:						
Property Taxes	3,197,458	3,161,579	-	-	3,197,458	3,161,579
Sales Taxes	1,225,503	1,096,970	-	-	1,225,503	1,096,970
Franchise Taxes	398,851	411,909	-	-	398,851	411,909
Hotel/Motel Taxes	58,287	64,036	-	-	58,287	64,036
Investment Income	5,205	6,099	3,153	5,780	8,358	11,879
Miscellaneous	16,782	81,032	75,531	65,310	92,313	146,342
Total Revenues	<u>6,680,687</u>	<u>6,551,535</u>	<u>5,470,376</u>	<u>4,269,716</u>	<u>12,151,063</u>	<u>10,821,251</u>
Expenses:						
Program Expenses						
General Government	1,916,086	2,659,282	-	-	1,916,086	2,659,282
Public Safety	1,902,136	1,830,189	-	-	1,902,136	1,830,189
Public Works	424,156	345,808	-	-	424,156	345,808
Public Services	352,190	357,937	-	-	352,190	357,937
Environmental Services	139,720	237,973	-	-	139,720	237,973
Culture and Recreation	487,896	484,295	-	-	487,896	484,295
Community Development	-	8,193	-	-	-	8,193
Environmental Services	811,717	102,989	-	-	811,717	102,989
Interest on Long-Term Debt	406,658	416,203	-	-	406,658	416,203
Water and Sewer	-	-	3,790,710	3,406,346	3,790,710	3,406,346
Total Expenses	<u>6,440,559</u>	<u>6,442,869</u>	<u>3,790,710</u>	<u>3,406,346</u>	<u>10,231,269</u>	<u>9,849,215</u>
Change in Net Position before Other Revenues and Financing Sources	240,128	108,666	1,679,666	863,370	1,919,794	972,036
Other Revenues:						
Transfers	212,992	225,361	(212,992)	(225,361)	-	-
Total Other Revenues	<u>212,992</u>	<u>225,361</u>	<u>(212,992)</u>	<u>(225,361)</u>	<u>-</u>	<u>-</u>
Total Change in Net Position	453,120	334,027	1,466,674	638,009	1,919,794	972,036
Net Position - October 1	3,056,180	2,882,830	5,416,741	5,241,764	8,472,921	8,124,594
Prior Period Adjustments	217,078	(160,677)	(217,078)	(463,032)	-	(623,709)
Net Position - September 30	<u>\$ 3,726,378</u>	<u>\$ 3,056,180</u>	<u>\$ 6,666,337</u>	<u>\$ 5,416,741</u>	<u>\$ 10,392,715</u>	<u>\$ 8,472,921</u>

Governmental activities had an increase in net position of \$453,120, excluding prior period adjustments. This is due to an increase in property and sales taxes of \$164,412, or 3.7%. In addition, operating and capital contributions had an increase of \$112,803, or 99.9%

Business-type activities increased net position by \$1,466,674, excluding prior period adjustments. Charges for services increased \$451,989, or 10.7%. The City received capital contributions of \$741,077 for the CCN purchase from BHP Water Supply Corporation. See Note E of the financial statements for detail of the purchase.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

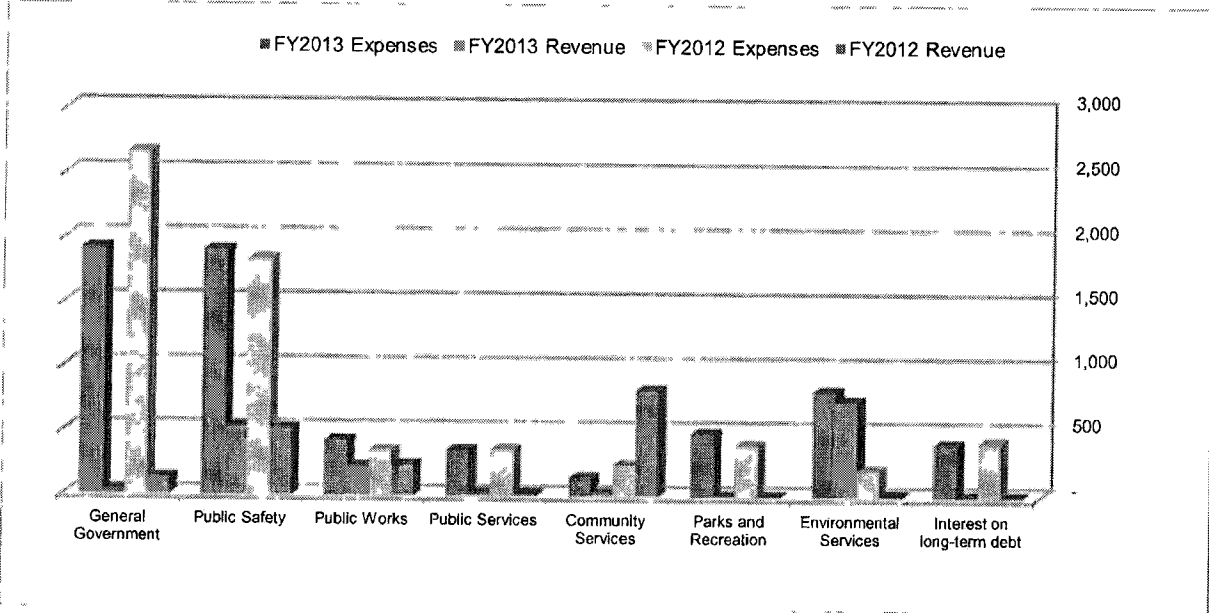
Governmental-type activities - Governmental-type activities increased the City's net position by \$453,120, excluding prior period adjustments. Key elements of this increase is as follows:

Sales tax revenues increased by \$128,533, or 11.7%.

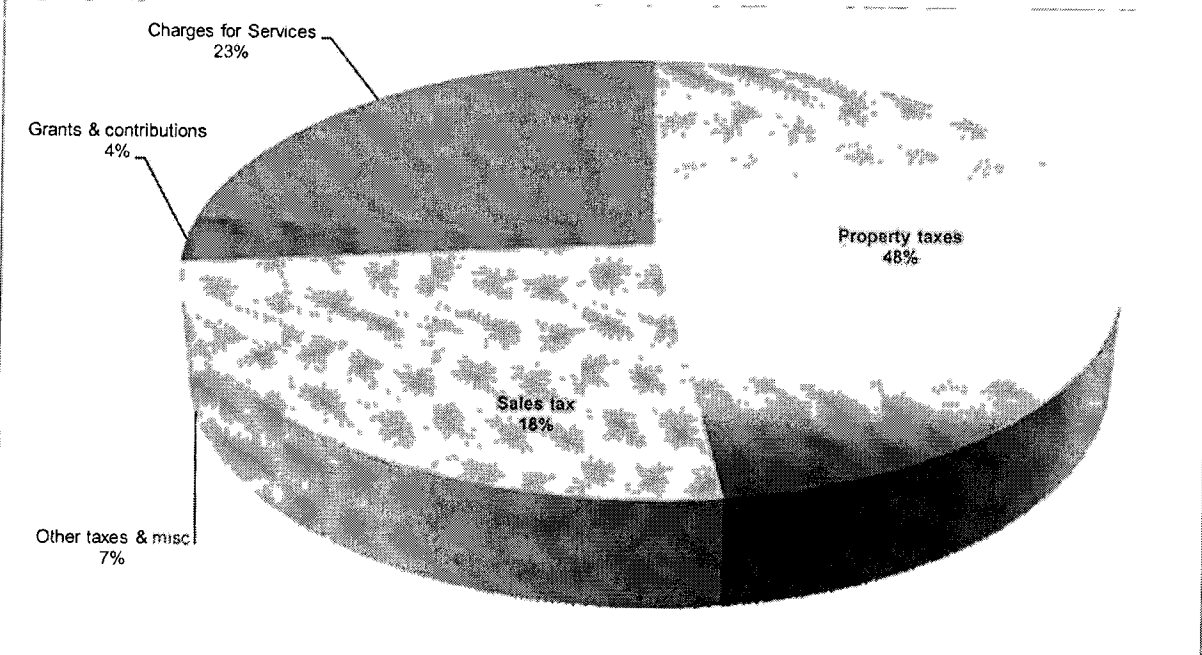
Grants and contributions increased by \$112,803

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



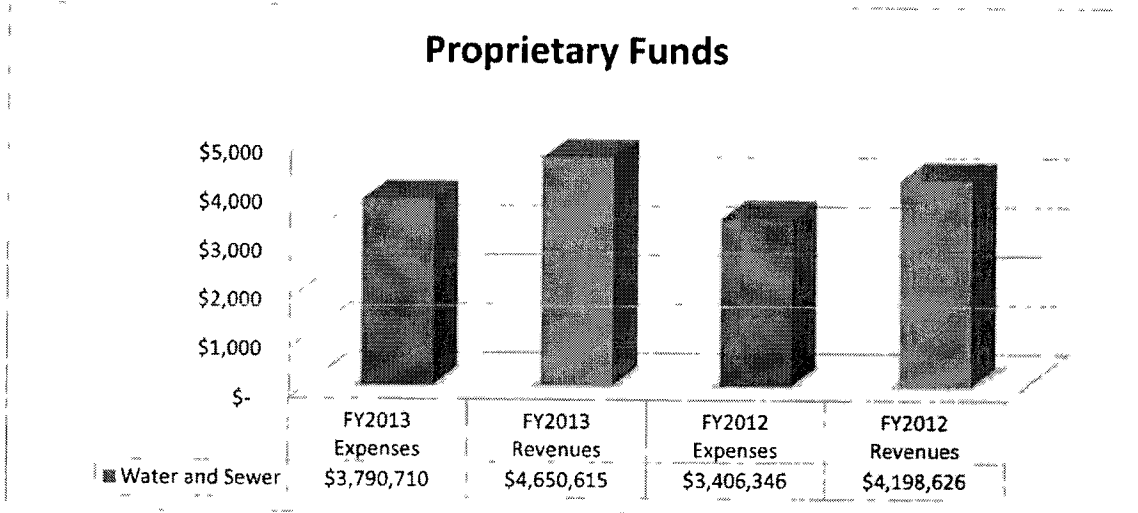
CITY OF ROYSE CITY, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2013

Business-type Activities - Business-type activities increased the City's net position by \$1,466,674, excluding prior period adjustments. A key element for this increase is as follows:

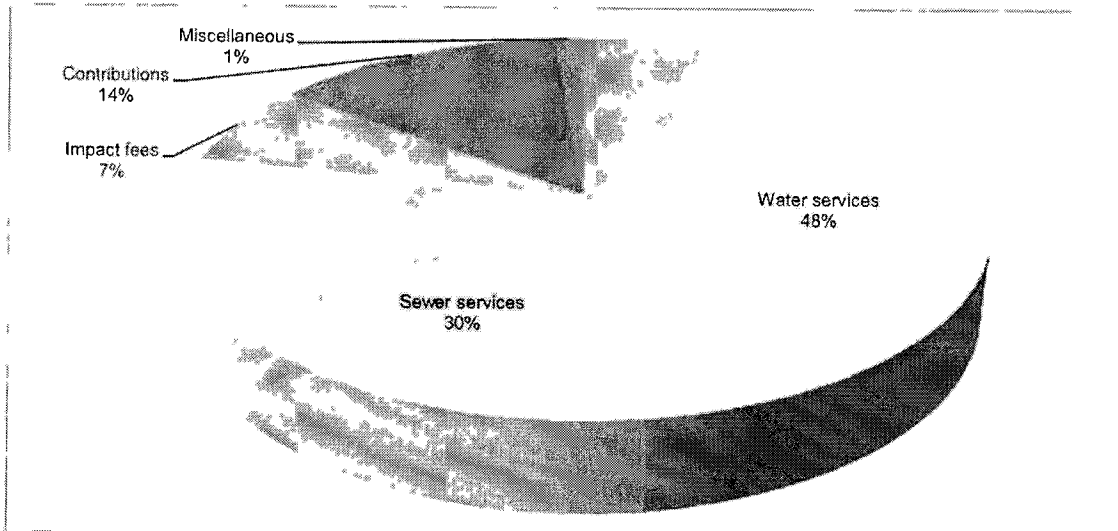
Charge for services increased \$451,989, or 10.7% and the City received a capital contribution of \$741,077

Expenditures and Program Revenues - Business-type Activities

(amounts expressed in thousands)



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year.

At September 30, 2013, the City's governmental funds reported total fund balances of \$1,852,926, an 8% increase in comparison with the prior year's total ending fund balances, excluding prior period adjustments. The components of total fund balance are as follows:

- Restricted fund balance, \$1,376,937, consists of amounts restricted by external laws or contractual obligations as follows: \$826,176 for debt service, and \$550,761 for other third party restrictions.
- Assigned fund balance of \$60,978, represents residual fund balance intended for use by special revenue including library, senior center, animal control and other purposes.
- Unassigned fund balance, \$415,011, represents residual available fund balances that have not been restricted, committed, or assigned by management, City Council, or otherwise.

General Fund - The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$416,608, compared to \$300,287 at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 7% of total General Fund expenditures.

Debt Service Fund - The Debt Service Fund is a major operating fund of the City. At the end of the current fiscal year, restricted fund balance was \$826,176, compared to \$913,963 at the end of the prior fiscal year. These funds are restricted for the payment of debt service expenditures.

Proprietary Funds

The City's proprietary fund statements provide essentially the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$1,802,056, compared to \$479,339 in the prior year.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2013**

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, totals \$25,679,945 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery & equipment, vehicles and construction in progress.

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

- Completion of the Verandah water tower
- Infrastructure improvements for water and sewer
- Water rights acquired

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

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 925,169	\$ 925,169	\$ 163,056	\$ 216,827	\$ 1,088,225	\$ 1,141,996
Construction in Progress	-	-	139,726	2,664,067	139,726	2,664,067
Certificate of Convenience	-	-	1,177,076	200,500	1,177,076	200,500
Infrastructure	-	-	13,690,171	11,216,101	13,690,171	11,216,101
Buildings & Improvements	8,896,098	9,104,475	6,570	7,859	8,902,668	9,112,334
Machinery & Equipment	653,000	643,346	29,079	47,113	682,079	690,459
Total	\$ 10,474,267	\$ 10,672,990	\$ 15,205,678	\$ 14,352,467	\$ 25,679,945	\$ 25,025,457

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

Long-Term Debt - As of September 30, 2013 the City had total long-term debt outstanding of \$21,944,242, an increase of \$666,687, or 3%, in comparison with the prior year. The City issued Series 2013 Certificate of in the amount of \$1,585,000 in the Water and Sewer Fund.

**City of Royse City
Outstanding Debt
As of September 30**

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 7,933,769	\$ 8,418,310	\$ 541,829	\$ 585,166	\$ 8,475,598	\$ 9,003,476
Certificates of Obligation	515,000	525,000	12,819,864	11,584,292	13,334,864	12,109,292
Tax Note	-	60,000	-	-	-	60,000
Capital Lease	112,298	37,885	-	-	112,298	37,885
Note Payable	21,482	66,902	-	-	21,482	66,902
Total	\$ 8,582,549	\$ 9,108,097	\$ 13,361,693	\$ 12,169,458	\$ 21,944,242	\$ 21,277,555

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

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2013**

Economic Factors and Next Year's Budgets and Rates

The approved budget for the General Fund FY 2013-2014 reflects a 3.4% increase over the current year budgeted revenue. This is primarily due to increases in property, sales and franchise tax revenues.

This budget will raise more total property taxes than the current year budget by \$201,176 generated by tax revenue from new property added to the tax rolls.

The adopted tax rate for FY 2013-2014 will remain at \$0.698 per \$100 valuation.

Requests for Information

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



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Royse City
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BASIC FINANCIAL STATEMENTS



**CITY OF ROYSE CITY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit EDC
ASSETS				
Cash and cash equivalents	\$ 1,466,128	\$ 608,836	\$ 2,074,964	\$ 975,659
Receivables (net of allowance for uncollectibles)	458,320	734,114	1,192,434	73,579
Internal balances	(743,172)	743,172	-	-
Restricted assets:				
Cash and cash equivalents	1,173,142	3,312,706	4,485,848	-
Capital assets not being depreciated				
Land	925,169	163,056	1,088,225	-
Construction in progress	-	139,726	139,726	-
Intangible asset	-	1,177,076	1,177,076	-
Capital assets, net of accumulated depreciation				
Machinery & equipment	653,000	29,079	682,079	-
Building & improvements	8,896,098	6,570	8,902,668	-
Infrastructure	-	13,690,171	13,690,171	-
Total Assets	12,828,685	20,604,506	33,433,191	1,049,238
LIABILITIES				
Accounts payable	232,069	120,936	353,005	28,596
Other liabilities	81,639	51,060	132,699	-
Accrued expenses	71,725	6,829	78,554	-
Customer deposits	-	307,761	307,761	-
Accrued interest payable	47,197	82,348	129,545	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	8,713	754	9,467	-
Capital lease	35,376	-	35,376	-
Note payable	21,482	-	21,482	-
Bonds payable	504,575	47,428	552,003	-
Certificates of obligation	10,000	390,000	400,000	-
Due in more than one year:				
Compensated absences	78,415	6,788	85,203	-
Capital lease	76,922	-	76,922	-
Bonds payable	7,429,194	494,401	7,923,595	-
Certificates of obligation	505,000	12,429,864	12,934,864	-
Total Liabilities	9,102,307	13,938,169	23,040,476	28,596
NET POSITION				
Net investment in capital assets	1,891,718	3,631,918	5,523,636	-
Restricted for:				
Debt service	826,176	288,710	1,114,886	-
Impact fee use	240,584	943,653	1,184,237	-
Police	42,781	-	42,781	-
Municipal Court	97,057	-	97,057	-
Hotel/Motel use	170,340	-	170,340	-
Unrestricted	457,722	1,802,056	2,259,778	1,020,642
Total Net Position	\$ 3,726,378	\$ 6,666,337	\$ 10,392,715	\$ 1,020,642

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

CITY OF ROYSE CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 1,916,086	\$ 25,731	\$ 92,983	\$ -
Public safety	1,902,136	523,343	-	111,603
Public works	424,156	224,381	-	-
Public services	352,190	15,951	-	-
Community development	139,720	20,462	-	17,089
Culture and recreation	487,896	4,130	-	4,242
Environmental services	811,717	738,686	-	-
Interest on long-term debt	406,658	-	-	-
Total governmental activities	<u>6,440,559</u>	<u>1,552,684</u>	<u>92,983</u>	<u>132,934</u>
Business-type Activities:				
Water and sewer	3,790,710	4,650,615	-	741,077
Total business-type activities	<u>3,790,710</u>	<u>4,650,615</u>	<u>-</u>	<u>741,077</u>
Total primary government	<u>10,231,269</u>	<u>6,203,299</u>	<u>92,983</u>	<u>874,011</u>
Component Unit				
Economic Development Corporation	402,181	-	-	-
Total component unit	<u>\$ 402,181</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
Sales taxes
Franchise taxes
Hotel/Motel taxes
Investment income
Miscellaneous
Transfers
Total general revenues
Change in net position
Net position - beginning
Prior period adjustments
Net position - ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business Activities	Total	EDC
\$ (1,797,372)	\$ -	\$ (1,797,372)	\$ -
(1,267,190)	-	(1,267,190)	-
(199,775)	-	(199,775)	-
(336,239)	-	(336,239)	-
(102,169)	-	(102,169)	-
(479,524)	-	(479,524)	-
(73,031)	-	(73,031)	-
(406,658)	-	(406,658)	-
<u>(4,661,958)</u>	<u>-</u>	<u>(4,661,958)</u>	<u>-</u>
-	1,600,982	1,600,982	-
-	1,600,982	1,600,982	-
<u>(4,661,958)</u>	<u>1,600,982</u>	<u>(3,060,976)</u>	<u>-</u>
-	-	-	(402,181)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (402,181)</u>
\$ 3,197,458	\$ -	\$ 3,197,458	\$ -
1,225,503	-	1,225,503	408,501
398,851	-	398,851	-
58,287	-	58,287	-
5,205	3,153	8,358	483
16,782	75,531	92,313	933
212,992	(212,992)	-	-
<u>5,115,078</u>	<u>(134,308)</u>	<u>4,980,770</u>	<u>409,917</u>
453,120	1,466,674	1,919,794	7,736
3,056,180	5,416,741	8,472,921	1,012,906
217,078	(217,078)	-	-
<u>\$ 3,726,378</u>	<u>\$ 6,666,337</u>	<u>\$ 10,392,715</u>	<u>\$ 1,020,642</u>

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

**CITY OF ROYSE CITY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 1,395,144	\$ -	\$ 70,984	\$ 1,466,128
Receivables, net of allowance for uncollectibles	375,844	82,476	-	458,320
Due from other funds	-	299,969	-	299,969
Restricted - cash and cash equivalents	67,424	544,646	561,072	1,173,142
Total Assets	<u>1,838,412</u>	<u>927,091</u>	<u>632,056</u>	<u>3,397,559</u>
LIABILITIES				
Accounts payable	231,204	-	865	232,069
Other liabilities	72,697	-	8,942	81,639
Accrued expenses	71,221	-	504	71,725
Due to other funds	1,006,758	-	36,387	1,043,145
Total Liabilities	<u>1,381,880</u>	<u>-</u>	<u>46,698</u>	<u>1,428,578</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue-property taxes	15,140	100,915	-	116,055
Fund Balances				
Restricted for:				
Debt service	-	826,176	-	826,176
Roadway Impact use	-	-	240,584	240,584
Police	-	-	42,780	42,780
Municipal court use	-	-	97,057	97,057
Hotel/Motel Use	-	-	170,340	170,340
Assigned to:				
Equipment replacement	2,556	-	-	2,556
General government	22,228	-	11,121	33,349
Library	-	-	3,679	3,679
Senior center	-	-	1,250	1,250
Parks and recreation	-	-	4,242	4,242
Public safety	-	-	11,568	11,568
Animal control	-	-	4,334	4,334
Unassigned	416,608	-	(1,597)	415,011
Total Fund Balances	<u>441,392</u>	<u>826,176</u>	<u>585,358</u>	<u>1,852,926</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 1,838,412</u>	<u>\$ 927,091</u>	<u>\$ 632,056</u>	<u>\$ 3,397,559</u>

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

**CITY OF ROYSE CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Total fund balances - governmental funds balance sheet	\$ 1,852,926
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,657,620
Accumulated depreciation has not been included in the governmental fund financial statements.	(3,183,353)
Revenues reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	116,055
Long-term liabilities, including bonds payable and capital leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(8,656,140)
Premiums and discounts on issuance of debt were not recognized in the balance sheet for governmental funds.	73,595
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(87,128)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an expenditure is reported when due.	(47,197)
Net position of governmental activities - statement of net position	<u><u>\$ 3,726,378</u></u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property, including P&I	\$ 1,469,073	\$ 1,724,682	\$ -	\$ 3,193,755
Sales	1,225,503	-	-	1,225,503
Franchise	398,851	-	-	398,851
Beverage	1,899	-	-	1,899
Hotel/Motel	-	-	58,287	58,287
Fines and fees	416,563	-	45,905	462,468
Licenses and permits	34,051	-	-	34,051
Charge for services	217,478	-	-	217,478
Refuse collection fees	738,686	-	-	738,686
Impact fees	-	-	100,000	100,000
Intergovernmental revenue-state and local	187,583	-	-	187,583
Donations	109	-	38,225	38,334
Investment income	2,588	2,312	306	5,206
Miscellaneous	14,886	-	-	14,886
Total Revenues	4,707,270	1,726,994	242,723	6,676,987
EXPENDITURES				
Current:				
General government	1,795,178	-	55,278	1,850,456
Public safety	1,800,216	-	7,356	1,807,572
Public works	279,818	-	-	279,818
Public services	346,001	-	3,723	349,724
Community development	120,705	-	-	120,705
Culture and recreation	452,877	-	-	452,877
Environmental services	798,217	-	13,500	811,717
Debt service:				
Principal retirement	82,532	558,096	-	640,628
Interest	4,898	404,553	-	409,451
Capital outlays				
General government	87,602	-	-	87,602
Culture and recreation	23,922	-	-	23,922
Public safety	41,577	-	-	41,577
Total Expenditures	5,833,543	962,649	79,857	6,876,049
Excess (deficiency) of revenues over (under) expenditures	(1,126,273)	764,345	162,866	(199,062)
Other Revenues and Financing Sources (uses)				
Transfers	1,102,083	(852,132)	(90,730)	159,221
Sale of asset	53,771	-	-	53,771
Capital lease proceeds	111,524	-	-	111,524
Total other financing sources (uses)	1,267,378	(852,132)	(90,730)	324,516
Net change in fund balances	141,105	(87,787)	72,136	125,454
Fund balances, October 1	300,287	913,963	296,144	1,510,394
Prior period adjustments	-	-	217,078	217,078
Fund balances, September 30	\$ 441,392	\$ 826,176	\$ 585,358	\$ 1,852,926

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

**CITY OF ROYSE CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 125,454
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the capital outlays is to increase net position.	153,101
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.	(351,824)
Current year long-term debt principal payments on bonds payable and capital leases are expenditures in the fund financial statements but are shown as reduction in long-term debt in the government-wide financial statements.	640,628
Current year capital lease proceeds are other financing sources in the fund financial statements but are shown as an increase in the liabilities of the government-wide financial statements.	(111,524)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	(5,655)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.	2,793
Premiums and discounts are recognized in the fund financial statements as other financial sources or uses but these are amortized over the term of the bonds in the government-wide financial statements	(3,554)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	3,701
Change in net position - governmental funds	<u>\$ 453,120</u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2013**

	<u>Water & Sewer Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 916,564
Receivables (net of allowance for uncollectibles)	734,114
Due from other funds	743,172
Restricted cash and cash equivalents	<u>3,004,978</u>
Total Current Assets	<u>5,398,828</u>
Noncurrent assets:	
Capital assets:	
Land	163,056
Intangible asset	1,177,076
Machinery & equipment	232,080
Buildings	39,551
Vehicles	261,364
Infrastructure	16,419,189
Construction in progress	139,726
Less: accumulated depreciation	<u>(3,226,364)</u>
Total capital assets, net	<u>15,205,678</u>
Total noncurrent assets	<u>15,205,678</u>
Total Assets	<u><u>20,604,506</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	120,936
Accrued expenses	6,829
Other liabilities	51,060
Payables from restricted funds:	
Customer deposits	307,761
Accrued interest	82,348
Compensated absences - current	754
Certificates of obligation - current	390,000
Bonds payable - current	<u>47,428</u>
Total Current Liabilities	<u>1,007,116</u>
Noncurrent liabilities:	
Compensated absences	6,788
Certificates of obligation	12,429,864
Bonds payable	<u>494,401</u>
Total noncurrent liabilities	<u>12,931,053</u>
Total liabilities	<u>13,938,169</u>
NET POSITION	
Net investment in capital assets	3,631,918
Restricted for:	
Debt Service	288,710
Impact fee use	943,653
Unrestricted	<u>1,802,056</u>
Total Net Position	<u><u>\$ 6,666,337</u></u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Water & Sewer Fund</u>
OPERATING REVENUES:	
Charges for services - water	\$ 2,621,594
Charges for services - sewer	1,638,620
Water impact fees	390,400
Miscellaneous	75,531
Total Operating Revenues	<u>4,726,145</u>
OPERATING EXPENSES:	
Personnel services	345,568
Materials and supplies	84,845
Repairs and maintenance	139,578
Water purchases	861,191
Contractual services	1,054,823
Interceptor expenses	215,742
Depreciation/amortization	428,576
Total Operating Expenses	<u>3,130,323</u>
Operating Income	<u>1,595,822</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	3,153
Issuance cost on issued debt	(55,187)
Interest expense	<u>(605,199)</u>
Total Non-Operating Revenues (Expenses)	<u>(657,233)</u>
Income before capital contributions and transfers	<u>(657,233)</u>
Capital contributions	741,077
Transfers	<u>(212,992)</u>
Change in Net Position	1,466,674
Net Position, October 1	5,416,741
Prior Period Adjustments	<u>(217,078)</u>
Net Position, September 30	<u>\$ 6,666,337</u>

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

**CITY OF ROYSE CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Water/Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,420,457
Cash received from other sources	307,012
Cash paid to employees	(303,629)
Cash paid to suppliers	<u>(2,254,500)</u>
Net cash provided by (used for) operating activities	<u>2,169,340</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	<u>(212,992)</u>
Net cash (used for) non-capital financing activities	<u>(212,992)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(1,270,834)
Debt proceeds	1,585,000
Principal payments on debt obligations	(421,105)
Interest and fiscal charges on debt	<u>(634,867)</u>
Net cash provided by (used for) capital & related financing activities	<u>(741,806)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>3,153</u>
Net cash provided by investing activities	<u>3,153</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,217,695
Cash and Cash Equivalents at Beginning of Year	<u>2,703,847</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,921,542</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	<u>\$ 1,595,822</u>
Adjustment to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation and amortization	428,576
Contributed capital	741,077
Change in Assets and Liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(41,551)
Prepaid expenses	185,000
Increase (decrease) in liabilities:	
Accounts payable	101,677
Escrow payable	(900,000)
Other liabilities	41,939
Customer deposits	<u>16,800</u>
Total adjustments	<u>573,518</u>
Net cash provided by operating activities	<u>\$ 2,169,340</u>

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

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies

The City of Royse City, Texas ("City") was settled in 1885 and operates under a Council/Manager form of government with the City Council comprised of the Mayor and six Council members. Some of the services provided are: public safety (police and fire protection), municipal court, water distribution, sewer treatment, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board when applicable. The more significant accounting policies of the City are described below.

1. Reporting Entity

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

Under GASB Statement No. 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB Statement No. 39 added clarification to GASB Statement No. 14 by including entities which meet all three of the following requirements:

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

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

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

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies (continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which required the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

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

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

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component unit, entities for which the City is considered to be financially accountable. The discretely presented component unit has been reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

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

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund and the Debt Service Fund. The major proprietary fund is the Water and Sewer Fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds. The nonmajor funds are combined in a separate column in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the proprietary fund include the costs of sales and service administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

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

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

b. Measurement Focus, Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available when they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No.6.

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

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

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major governmental funds:

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

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

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flow. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting

b. Measurement Focus, Basis of Accounting (continued)

Proprietary funds are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purposes. The following is a description of the proprietary fund:

The *Water and Sewer Fund* accounts for those operations of the water and sanitary sewer utilities which are self-supporting activities rendering services on a user-charge basis.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

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

b. Prepaid Items

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

c. Receivable and Payable Balances

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

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts and are reported as Internal Balances.

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

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the proprietary fund represent cash and cash equivalents and investments set aside for repayment of customer's water/sewer deposits, impact fees, specific capital additions and various bond covenants.

Impact fees are the capital recovery fees that are, by law, restricted to the projects these funds may be used to support.

Customers deposits received for water and sewer services are, by law, to be considered restricted assets. These activities are included in the proprietary fund.

**CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

e. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest recorded in the current fiscal year.

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

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

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

f. Compensated Absences

It is the City's policy to pay a separating employee with at least six months of continuous service unused vacation leave not to exceed 80 hours. The rate of pay will be determined by the salary rate in effect at the time of separation. As such, there is an accrual at the close of the fiscal year end in the government-wide and proprietary fund financial statements for the amount due to all employees as of September 30, 2013. No unused sick or holiday leave will be paid out upon termination of employment.

g. Long-term Obligations

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

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

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The government does have any deferred outflows of resources for the current fiscal period.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

h. Deferred Outflows/Inflows of Resources (continued)

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 a net position that applies to that time. The government has only one type of item which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, deferred revenue, is reported only in the governmental funds balance sheet. The governmental funds report deferred revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

i. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

j. Fund Balance Policies

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

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution or ordinance of the City Council and that remains binding unless removed in the same manner. The resolution must be approved before the end commitment will be reflected on the financial statements.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. The intent can be established by either the City Council or City Manager, as authorized by the City Council. Assignment is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for a special purpose as directed by City Council or City Manager.
- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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