D. Contingent liabilities

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

There is currently before the State Office of Administrative Hearings an appeal of an increase in water rates brought by the City of Three Rivers water customers.

E. Pension Plan

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

PLAN YEAR	2011	2013
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	1 to 1	1 to 1
YEARS REQUIRED FOR VESTING	5	5
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
UPDATED SERVICE CREDIT	100% repeating	100% repeating
ANNUITY INCREASE (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

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

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

Accounting Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/2011	85,020	100%	0.00
09/30/2012	102,158	100%	0.00
09/30/2013	117,836	100%	0.00

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest valuation, December 31, 2012, also follows:

VALUATION DATE	12/31/2010	12/31/2011	12/31/2012
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 EQUIVALENT PERIOD	27.2 years; closed period	26.2 years; closed period	25.3 years; closed period
ASSET VALUATION METHOD	10-year smoothed market	10-year smoothed market	10-year smoothed market
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.5%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
A COST-OF-LIVING ADJUSTMENTS	2.1	2.1%	2.1%
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	30 YEARS	30 YEARS	30 YEARS

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2012	$3,235,410	$3,453,770	$218,360	93.7%	$1,625,020	13.4%

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

E. Prior Period adjustment

The City had a prior period adjustment where by both business-type activities construction in progress and accounts payable were increased by $103,138. The restatement was a result of a construction payable erroneously not being included in the year ended September 30, 2012.

There was no affect on the net position of the business-type activities, shown as follows:

	Net Assets, as Previously Reported	**Fixed Asset Restatement**	**Accounts Payable Restatement**	**Fund Balance As Restated**
Proprietary Funds				
Net Assets	$5,654,094	$103,138	($103,138)	$5,654,094
Total Proprietary Funds	$5,654,094	$103,138	($103,138)	$5,654,094

	Net Assets, as Previously Reported	**Fixed Asset Restatement**	**Accounts Payable Restatement**	**Net Assets As Restated**
Business-type Activites:				
Net Assets	$5,654,094	$103,138	($103,138)	$5,654,094
Total Busuness-type Activities	$5,654,094	$103,138	($103,138)	$5,654,094

REQUIRED SUPPLEMENTARY INFORMATION

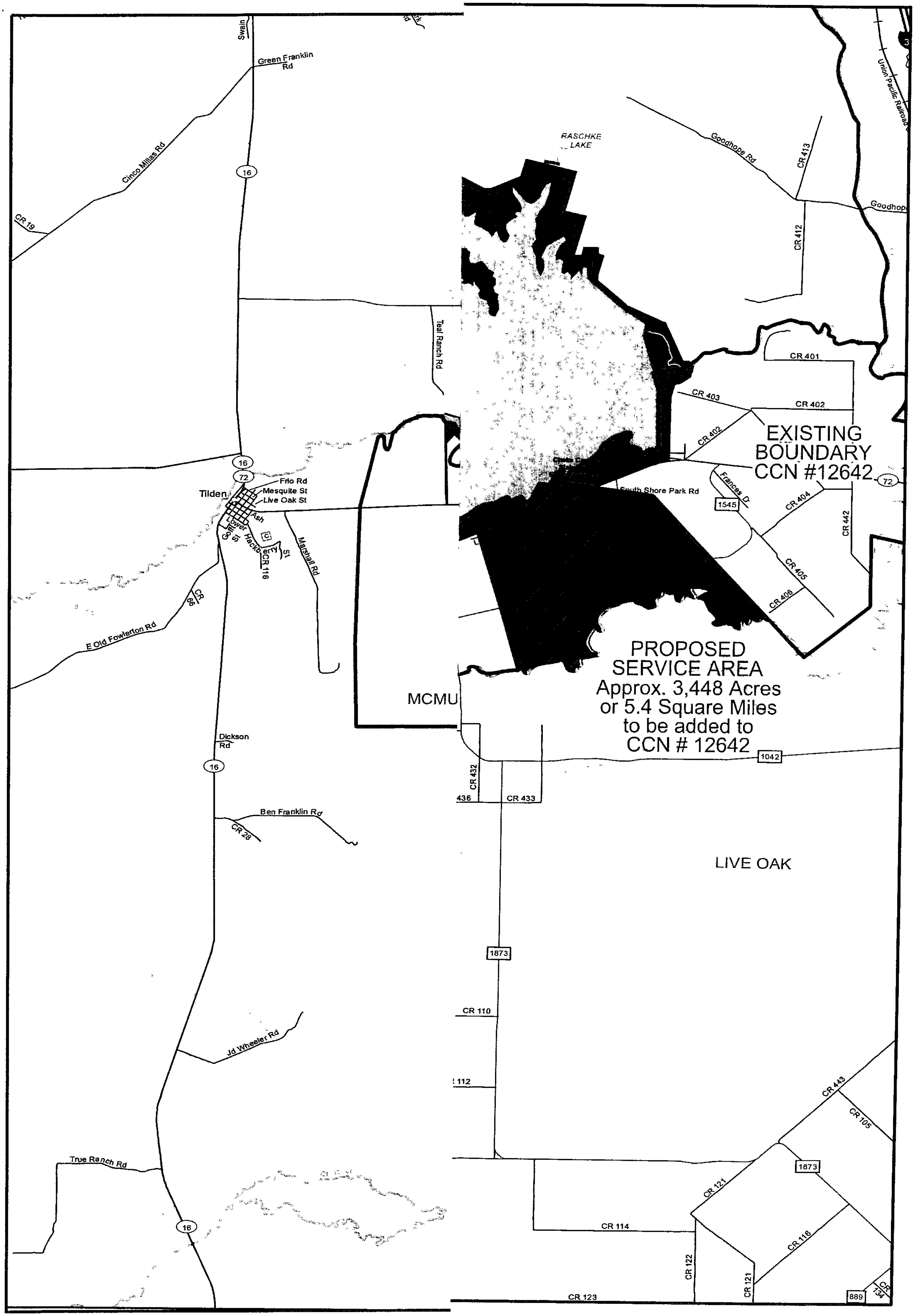
Required Supplementary Information

ANALYSIS OF FUNDING PROGRESS

EMPLOYEE RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2009	$2,272,095	$2,751,480	$479,385	82.6%	$1,221,042	39.3%
2010	2,703,469	2,951,527	248,058	91.6%	1,250,516	19.8%
2011	2,977,483	3,217,150	239,667	92.6%	1,316,348	18.2%
2012	3,235,410	3,453,770	218,360	93.7%	1,625,020	13.4%

Funded Status and funding Progress – In June, 2013, SB was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial study that was adopted by the TMRS Board at their May, 2013 meeting (the review compared actual to expected experience for the four year period of January 1, 2006 through December 31, 2009). for a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please refer to the December 31, 2010 TMRS Comprehensive Annual financial Report (CAFR).



EXISTING
BOUNDARY
CCN #12642
PROPOSED
SERVICE AREA
Approx. 3,448 Acres
or 5.4 Square Miles
to be added to
CCN # 12642
LIVE OAK
MCMU
Tilden
RASCHKE
LAKE
Green Franklin Rd
Swain
Cinco Millas Rd
CR 19
Goodhope Rd
CR 413
CR 412
Union Pacific Railroad
Teal Ranch Rd
CR 401
CR 403
CR 402
Frio Rd
Mesquite St
Live Oak St
South Shore Park Rd
Frances Dr
1545
CR 404
CR 442
CR 405
CR 406
Marshall Rd
CR 116
E Old Fowlerton Rd
CR 66
Dickson Rd
1042
CR 432
436
CR 433
Ben Franklin Rd
CR 28
1873
CR 110
Jd Wheeler Rd
112
CR 443
CR 105
True Ranch Rd
CR 121
CR 114
CR 116
CR 122
CR 123
889
CR 134
16
72