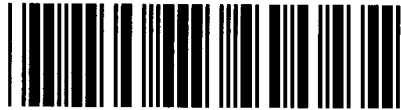


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Item Number: 2

Addendum StartPage: 0

House Bill (HB) 1600 and Senate Bill (SB) 567 83rd
Legislature, Regular Session, transferred the functions
relating to the economic regulation of water and sewer
utilities from the TCEQ to the PUC effective
September 1, 2014

44028

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CITY OF THREE RIVERS, TEXAS PUBLIC UTILITY COMMISSION
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ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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UTILITIES & DISTRICTS
SECTION

WAYNE R. BEYER
CERTIFIED PUBLIC ACCOUNTANT

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2

CITY OF THREE RIVERS, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
September 30, 2012

RECEIVED
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UTILITIES & INFRASTRUCTURE
SECTION

City of Three Rivers, Texas
Annual Financial Report
For the Fiscal Year Ended September 30, 2012

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FINANCIAL SECTION

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Three Rivers, Texas

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

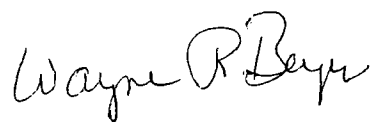
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Three Rivers, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013, on our consideration of the City of Three Rivers, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Public Employees Retirement System on pages 3 through 12, and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

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

BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
April 25, 2013

Management's Discussion and Analysis

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

Financial Highlights

- . The assets of the City of Three Rivers, Texas exceeded its liabilities at the close of the most recent fiscal year by \$11,118,932 (net assets). Of this amount, \$2,019,598 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total net assets increased by \$1,144,938. This increase is attributable to a grant in the Water Fund of \$306,408, an increase in sales taxes of \$472,999, an increase in charges for services of \$535,163, and an increase in franchise taxes of \$178,176.
- . As of the close of the current fiscal year, the City of Three Rivers, Texas' governmental funds reported combined ending fund balances of \$3,299,440, a decrease of \$461,929 in comparison with the prior year. Approximately 69% of this total amount, \$2,271,952, is available for spending at the government's discretion (unassigned fund balance).
- . At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,271,952, or 67 percent of total general fund expenditures.
- . The City of Three Rivers, Texas' total bonded debt decreased by \$164,000 (2.34 percent) during the current fiscal year. The key factor in this decrease was the payment of bond principal of \$164,000.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Three Rivers, Texas that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Three Rivers, Texas include general administration, public safety, public transportation, capital projects, and culture and recreation. The business-type activities of the City of Three Rivers, Texas include Water, Gas, Garbage, and Sewer funds.

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

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

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

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

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

The City of Three Rivers, Texas maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund which are considered to be major funds and for the capital projects fund which is considered to be a non-major fund.

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

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

Proprietary funds: The City of Three Rivers, Texas maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Three Rivers, Texas uses enterprise funds to account for its Water, Gas, Garbage, and Sewer activities. The Internal Service Funds for the City of Three Rivers, Texas, consist solely of the Self-Maintenance fund. This fund was created to provide physical damage coverage for accidental damages incurred by City vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Gas, Sewer, and Garbage funds which are considered to be major funds of the City of Three Rivers, Texas. Conversely, the internal service fund is combined into a single, aggregated presentation in the proprietary fund financial statement.

The basic proprietary fund financial statements can be found on pages 20-24 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 can be found on pages 25-44 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Three Rivers, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 45 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Three Rivers, Texas, assets exceeded liabilities by \$11,118,932 at the close of the most recent fiscal year.

A major portion of the City of Three Rivers, Texas' net assets (63 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Three Rivers, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Three Rivers, Texas' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF THREE RIVERS, TEXAS NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$2,580,067	\$3,059,244	\$589,171	\$777,415	\$3,169,238	\$3,836,659
Restricted Assets	1,039,692	909,356	2,084,351	1,956,285	3,124,043	2,865,641
Capital Assets:	1,963,959	849,275	11,865,409	11,573,716	13,829,368	12,422,991
Total Assets	5,583,718	4,817,875	14,538,931	14,307,416	20,122,649	19,125,291
Long-Term Liabilities	49,131	51,191	6,886,200	7,049,352	6,935,331	7,100,543
Other Liabilities (Payable from Restricted Assets)	0	0	55,734	53,934	55,734	53,934
Other Liabilities	69,749	47,261	1,942,903	1,949,559	2,012,652	1,996,820
Total Liabilities	118,880	98,452	8,884,837	9,052,845	9,003,717	9,151,297
Invested in Capital Assets, Net of Related Debt	1,963,959	849,275	5,007,409	4,551,716	6,971,368	5,400,991
Restricted	189,044	187,725	1,938,922	1,834,054	2,127,966	2,021,779
Unrestricted	3,311,835	3,682,423	(1,292,237)	(1,131,199)	2,019,598	2,551,224
Total Net Assets	\$5,464,838	\$4,719,423	\$5,654,094	\$5,254,571	\$11,118,932	\$9,973,994

An additional portion of the City of Three Rivers, Texas' net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,019,598) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Three Rivers, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year, the City of Three Rivers, Texas reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities with one exception: the business-type activities showed a negative unrestricted net asset for the current and the prior fiscal year of \$1,292,237 and \$1,131,199, respectively.

The government's total net assets increased by \$1,144,938. This increase is attributable to a grant in the Water Fund of \$306,408, an increase in sales taxes of \$472,999, an increase in charges for services of \$535,163, and an increase in franchise taxes of \$178,176.

Governmental activities:

Governmental activities increased the City of Three Rivers, Texas' net assets by \$745,415, thereby accounting for 65 percent of the total growth in the net assets of the City of Three Rivers, Texas. The over all revenues increased by \$1,259,473 while the expenditures increased by \$391,306 with transfers out increasing by \$75,533. The major increase in revenues was in sales taxes which increased by \$472,999 or 96%, the charges for services increased by \$535,163 or 79%, and the franchise taxes increased by \$178,176 or 23%. The largest expense increase was in public safety which increased by \$428,603.

**CITY OF THREE RIVERS, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$1,340,863	\$747,526	\$2,230,120	\$2,288,294	\$3,570,983	\$3,035,820
Operating Grants and Contributions	0	1,033			0	1,033
Capital Grants and Contributions	0	0	306,408	514,635	306,408	514,635
General Revenues:						
Maintenance and Operations Taxes	1,038,178	985,655			1,038,178	985,655
Sales Taxes	966,352	493,353			966,352	493,353
Franchise Taxes	951,381	773,205			951,381	773,205
Licenses and Permits	54,918	14,884			54,918	14,884
Unrestricted Investment Earnings	30,218	34,178	1,410	1,688	31,628	35,866
Miscellaneous	8,968	81,571			8,968	81,571
Total Revenue	4,390,878	3,131,405	2,537,938	2,804,617	6,928,816	5,936,022
Expenses:						
General Administration	611,105	597,697			611,105	597,697
Public Safety	1,275,308	846,705			1,275,308	846,705
Public Transportation	153,621	199,037			153,621	199,037
Public Works	380,616	384,039			380,616	384,039
Culture and Recreation	253,121	254,987			253,121	254,987
Choke Canyon Water			542,942	503,406	542,942	503,406
Water			1,406,848	1,219,757	1,406,848	1,219,757
Sewer			660,001	502,487	660,001	502,487
Gas			333,168	260,757	333,168	260,757
Garbage			167,148	166,034	167,148	166,034
Total Expenses	2,673,771	2,282,465	3,110,107	2,652,441	5,783,878	4,934,906
Increase in Net Assets Before Transfers and Special Items Transfers	1,717,107	848,940	(572,169)	152,176	1,144,938	1,001,116
	(971,692)	(896,159)	971,692	896,159	0	0
Increase in Net Assets	745,415	(47,219)	399,523	1,048,335	1,144,938	1,001,116
Net Assets at 09/30/2011	4,719,423	4,766,642	5,254,571	4,206,236	9,973,994	8,972,878
Net Assets at 09/30/2012	\$5,464,838	\$4,719,423	\$5,654,094	\$5,254,571	\$11,118,932	\$9,973,994

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Government Activities:				
General Administration	\$611,105	\$0	\$0	\$0
Public Safety	1,275,308	716,268		
Public Transportation	153,621			
Public Works	380,616	440,679		
Culture and Recreation	253,121	183,916		
Total Government Activities	<u>\$2,673,771</u>	<u>\$1,340,863</u>	<u>\$0</u>	<u>\$0</u>

Revenues by Source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$1,340,863	31%
Maintenance and Operations Taxes	1,038,178	24%
Sales Taxes	966,352	22%
Franchise Taxes	951,381	22%
Licenses and Permits	54,918	1%
Unrestricted Investment Earnings	30,218	1%
Miscellaneous	8,968	0%
	<u>\$4,390,878</u>	<u>100%</u>

Business-type activities:

Business-type activities increased the City of Three Rivers, Texas' net assets by \$399,523 thus accounting for 35 percent of the total growth in the net assets of the City of Three Rivers, Texas.

Charges for services for business-type activities decreased by \$58,174 or 3% while expenses increased by \$457,666 or 17%. The Capital grants and contributions decreased by \$208,227.

Expenses and Program Revenues - Business Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Business-Type Activities:			
Choke Canyon Water	\$542,942	\$384,293	\$0
Water	1,406,848	1,148,500	
Sewer	660,001	318,396	306,408
Gas	333,168	209,311	
Garbage	167,148	169,620	
Total Business-Type Activities	<u>\$3,110,107</u>	<u>\$2,230,120</u>	<u>\$306,408</u>

Revenues by Source - Business-Type Activities

	REVENUES	%
Unrestricted Investment Earnings	\$1,410	100.00%
	<u>\$1,410</u>	<u>100.00%</u>

Financial Analysis of the Government's Funds

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

Governmental funds:

The focus of the City of Three Rivers, Texas' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Three Rivers, Texas' financing requirements. In particular, uncommitted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Three Rivers, Texas' governmental funds reported combined ending fund balances of \$3,299,440, a decrease of \$461,929 in comparison with the prior year. Approximately 69 percent of this total amount (\$2,271,952) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or committed.

The general fund is the chief operating fund of the City of Three Rivers, Texas. At the end of the current fiscal year, uncommitted fund balance of the general fund was \$2,271,952, while total fund balance reached \$3,110,396. As a measure of the general fund's liquidity, it may be useful to compare both uncommitted fund balance and total fund balance to total fund expenditures. Uncommitted fund balance represents 67 percent of total general fund expenditures, while total fund balance represents 91 percent of that same amount.

The fund balance of the City of Three Rivers, Texas' general fund decreased by \$463,248 during the current fiscal. This decrease is attributable to a street project of \$1,075,543 offsetting an increase in sales taxes of \$472,999, an increase in charges for services of \$535,163, and an increase in franchise taxes of \$178,176.

At the end of the current fiscal year, uncommitted fund balance of the debt service fund was \$0, while total fund balance reached \$1,788. As a measure of the debt service fund's liquidity, it may be useful to compare both uncommitted fund balance and total fund balance to total fund expenditures; however there were no expenditures in the year.

The fund balance of the City of Three Rivers, Texas' debt service fund increased by \$609 during the current fiscal. This increase is immaterial.

At the end of the current fiscal year, uncommitted fund balance of the capital projects fund was \$0, while total fund balance reached \$187,256. As a measure of the capital projects fund's liquidity, it may be useful to compare both uncommitted fund balance and total fund balance to total fund expenditures; however there were no expenditures in the year.

The fund balance of the City of Three Rivers, Texas' capital projects fund increased by \$710 during the current fiscal. This increase is immaterial.

Proprietary funds:

The City of Three Rivers, Texas' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility fund at the end of the year amounted to a deficit of \$1,292,237. The increase in net assets was \$399,523. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Three Rivers, Texas' business-type activities.

General Fund Budgetary Highlights:

There were no budget amendments during the fiscal year. There was a negative budget variance of \$1,362,893 with the largest negative budget variance of \$918,805 occurring in street department.

Capital Asset and Debt Administration

Capital assets:

The City of Three Rivers, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$13,829,368 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Three Rivers, Texas' investment in capital assets for the current fiscal year was 11 percent (a 131 percent increase for governmental activities and a 3 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

The City had a water line construction project during the year that was completed at September 30, 2012. The City also had a street construction project during the year that was not completed at September 30, 2012. The City had an additional water line construction project during the year that was not completed at September 30, 2012. The City had a sewer line construction project during the year that was not completed at September 30, 2012.

CITY OF THREE RIVERS, TEXAS CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$137,239	\$137,239	\$255,223	\$255,223	\$392,462	\$392,462
Construction in Progress	1,075,543	0	768,216	744,880	1,843,759	744,880
Building and Improvements	577,538	598,317	0	0	577,538	598,317
Machinery and Equipment	167,517	107,452	178,261	132,828	345,778	240,280
Infrastructure	6,122	6,267	0	0	6,122	6,267
Utility Systems	0	0	10,663,709	10,440,785	10,663,709	10,440,785
Total	\$1,963,959	\$849,275	\$11,865,409	\$11,573,716	\$13,829,368	\$12,422,991

Additional information on the City of Three Rivers, Texas' capital assets can be found in note IV C on page 37-38 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Three Rivers, Texas had total bonded debt outstanding of \$6,858,000. Of this amount, \$0 comprises debt backed by the full faith and credit of the City of Three Rivers, Texas. The remainder of the City of Three Rivers, Texas' debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

CITY OF THREE RIVERS, TEXAS
Outstanding Debt
Cert. of Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Certificates of Obligation	\$0	\$0	\$5,383,000	\$5,447,000	\$5,383,000	\$5,447,000
Revenue Bonds	0	0	1,475,000	1,575,000	1,475,000	1,575,000
Total	\$0	\$0	\$6,858,000	\$7,022,000	\$6,858,000	\$7,022,000

The City of Three Rivers, Texas' total bonded debt decreased by \$164,000 (2.34 percent) during the current fiscal year. The key factor in this decrease was the payment of bond principal of \$164,000.

Additional information on the City of Three Rivers, Texas' long-term debt can be found in note IV F on pages 39-40 of this report.

Economic Factors

On November 9, 2011, the council adopted Resolution No. 6081 authorizing the City's participation in the Texas Enterprise Zone Program and nominating Diamond Shamrock Refining Company, L.P. Three Rivers Refinery as an Enterprise Project. The refinery would retain 290 jobs and spend \$175,000,000.00 in construction. Diamond Shamrock commits to hiring 25% economically disadvantaged persons or enterprise zone residents for its new or replacement personnel for certified jobs over the next 5 years.

Requests for Information

This financial report is designed to provide a general overview of the City of Three Rivers, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 398, Three Rivers, Texas, 78071 .

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF THREE RIVERS, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$553,598	\$416,990	\$970,588
Receivables (net of allowance for uncollectibles)	162,309	114,556	276,865
Unamortized Bond Issuance Cost		57,625	57,625
Due from Other Funds	1,864,160		1,864,160
Restricted Assets:			
Cash and Cash Equivalents	1,027,687	2,084,351	3,112,038
Receivables (net of allowance for uncollectibles)	12,005		12,005
Capital Assets Not Being Depreciated:			
Land	137,239	255,223	392,462
Construction in Progress	1,075,543	768,216	1,843,759
Total Capital Assets Being Depreciated, Net			
Building and Improvements	577,538		577,538
Machinery and Equipment	167,517	178,261	345,778
Infrastructure	6,122		6,122
Utility Systems		10,663,709	10,663,709
Total Assets	\$5,583,718	\$14,538,931	\$20,122,649
LIABILITIES:			
Accounts Payable	\$46,242	\$26,859	\$73,101
Accrued Interest Payable		39,347	39,347
Accrued Wages	23,507	12,537	36,044
Due to Other Funds		1,864,160	1,864,160
Consumer Meter Deposit		55,734	55,734
Noncurrent Liabilities:			
Due Within One Year	49,131	199,200	248,331
Due in More Than One Year		6,687,000	6,687,000
Total Liabilities	118,880	8,884,837	9,003,717
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,963,959	5,007,409	6,971,368
Restricted			
Debt Service	1,788	4,068	5,856
Capital Replacement		1,934,854	1,934,854
Construction	187,256		187,256
Unrestricted	3,311,835	(1,292,237)	2,019,598
Total Net Assets	\$5,464,838	\$5,654,094	\$11,118,932

The accompanying notes are an integral part of this statement.

CITY OF THREE RIVERS, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Total						
Primary Government						
Government Activities:						
General Administration	\$611,105	\$0	\$0	\$0	(\$611,105)	(\$611,105)
Public Safety	1,275,308	716,268			(559,040)	(559,040)
Public Transportation	153,621				(153,621)	(153,621)
Public Works	380,616	440,679			60,063	60,063
Culture and Recreation	253,121	183,916			(69,205)	(69,205)
Total Government Activities	2,673,771	1,340,863	0	0	(1,332,908)	0
Business-Type Activities:						
Choke Canyon Water	542,942	384,293				(158,649)
Water	1,406,848	1,148,500				(258,348)
Sewer	660,001	318,396		306,408		(35,197)
Gas	333,168	209,311				(123,857)
Garbage	167,148	169,620				2,472
Total Business-Type Activities	3,110,107	2,230,120	0	306,408	0	(573,579)
Total Primary Government	\$5,783,878	\$3,570,983	\$0	\$306,408	(1,332,908)	(573,579)
General Revenues					1,038,178	1,038,178
Property Taxes, Levies for General Purposes					966,352	966,352
Sales Taxes					951,381	951,381
Franchise Taxes					54,918	54,918
License and Permits					30,218	1,410
Unrestricted Investment Earnings					8,968	8,968
Miscellaneous					(971,692)	971,692
Transfers					2,078,323	973,102
Total General Revenues and Transfers					745,415	399,523
Change in Net Assets					4,719,423	5,254,571
Net Assets - Beginning					\$5,464,838	\$5,654,094
Net Assets - Ending						11,118,932

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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

	General Fund	Debt Service Fund	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$450,134	\$0	\$0	\$450,134
Receivables (net of allowance for uncollectibles)	17,897			17,897
Due from Other Funds	1,880,979			1,880,979
Restricted Assets:				
Cash and Cash Equivalents	838,643	1,788	187,256	1,027,687
Receivables (net of allowance for uncollectibles)		12,005		12,005
Total Assets	<u>\$3,187,653</u>	<u>\$13,793</u>	<u>\$187,256</u>	<u>\$3,388,702</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$44,835			\$44,835
Accrued Wages	18,780			18,780
Unearned Revenues	13,642	12,005		25,647
Total Liabilities	<u>77,257</u>	<u>12,005</u>	<u>0</u>	<u>89,262</u>
Fund Balances:				
Restricted				
Debt Service		1,788		1,788
Construction			187,256	187,256
Committed				
Capital Improvement	28,471			28,471
Construction	393,939			393,939
Fire Department	100,907			100,907
Police Drug Enforcement	7,072			7,072
Street and Drainage	259,831			259,831
Tourism	48,423			48,423
Unassigned	2,271,753			2,271,753
Total Fund Balance	<u>3,110,396</u>	<u>1,788</u>	<u>187,256</u>	<u>3,299,440</u>
Total Liabilities and Fund Balances	<u>\$3,187,653</u>	<u>\$13,793</u>	<u>\$187,256</u>	<u>\$3,388,702</u>

The accompanying notes are an integral part of this statement.

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

Total Fund Balances - governmental funds balance sheet

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

Capital assets used in governmental activities are not reported in the funds.
 Property taxes receivable unavailable to pay for current period
 expenditures are deferred in the funds (net of allowance for uncollectibles).
 Other long-term assets are not available to pay for current period
 expenditures and, therefore, are deferred in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the
 current period and therefore are not reported in the funds.

Internal Service funds are used by management to account for funds for Self-
 Maintenance. The assets and liabilities of internal service funds are included in
 governmental activities in the Statement of Net Assets.

\$3,299,440

1,963,959

25,647

144,412

(36,247)

67,627

\$5,464,838

Net assets of governmental activities - statement of net assets

The accompanying notes are an integral part of this statement.

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

	General Fund	Debt Service Fund	Capital Projects	Total Governmental Funds
REVENUES				
Taxes				
Property	\$556,463	\$483,305	\$0	\$1,039,768
Sales	966,352			966,352
Franchise	951,381			951,381
Licenses and Permits	54,918			54,918
Charges for Services	213,788			213,788
Fines and Forfeitures	651,552			651,552
Interest	28,706	802	710	30,218
Miscellaneous	8,968			8,968
Total Revenues	3,432,128	484,107	710	3,916,945
EXPENDITURES				
Current:				
General Administration				
General administration	604,819			604,819
Public Safety				
Animal Control	35,663			35,663
Building Inspections	62,497			62,497
Fire Department	43,569			43,569
Impound Fund	84,494			84,494
Municipal Court	377,223			377,223
Police Department	692,844			692,844
Safety	10,667			10,667
Public Transportation				
Levee Maintenance	9,386			9,386
Streets	1,224,119			1,224,119
Culture and Recreation				
Parks	261,901			261,901
Total Expenditures	3,407,182	0	0	3,407,182
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	24,946	484,107	710	509,763
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out	(488,194)	(483,498)		(971,692)
Total Other Financing Sources (Uses)	(488,194)	(483,498)	0	(971,692)
Net Changes in Fund Balances	(463,248)	609	710	(461,929)
Fund Balances - Beginning	3,573,644	1,179	186,546	3,761,369
Fund Balances - Ending	\$3,110,396	\$1,788	\$187,256	\$3,299,440

The accompanying notes are an integral part of this statement.

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

(\$461,929)

Net Changes in Fund Balances - total governmental funds

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

Governmental funds report capital outlays as expenditures. However, in the statement
 of activities the cost of those assets is allocated over their estimated useful lives
 and reported as depreciation expense. This is the amount by which capital outlays
 exceeded depreciation in the current period.

1,114,684

Other long-term assets are not available to pay for current period
 expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.

34,844

Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.
 (Increase) decrease in Compensated Absences from beginning of period to end of period.

(1,590)

(657)

Internal Service funds are used by management to account for funds for Self-Maintenance.
 The net revenue of certain activities of Internal service funds is reported with

60,063

governmental activities.

\$745,415

Change in net assets of governmental activities - statement of activities

The accompanying notes are an integral part of this statement.

CITY OF THREE RIVERS, TEXAS

GENERAL FUND

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

FOR THE PERIOD ENDING SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$500,000	\$500,000	\$556,463	\$56,463
Sales	600,000	600,000	966,352	366,352
Franchise	674,080	674,080	951,381	277,301
Intergovernmental				0
Licenses and Permits	9,000	9,000	54,918	45,918
Charges for Services	99,750	99,750	213,788	114,038
Fines and Forfeitures	200,000	200,000	651,552	451,552
Interest	0	0	28,706	28,706
Miscellaneous	2,000	2,000	8,968	6,968
Total Revenues	2,084,830	2,084,830	3,432,128	1,347,298
EXPENDITURES				
Current:				
General Administration				
General Administration	577,678	577,678	604,819	(27,141)
Public Safety				
Animal Control	22,006	22,006	35,663	(13,657)
Building Inspections	55,033	55,033	62,497	(7,464)
Fire Department	47,042	47,042	43,569	3,473
Impound Fund	25,000	25,000	84,494	(59,494)
Municipal Court	277,390	277,390	377,223	(99,833)
Police Department	469,354	469,354	692,844	(223,490)
Safety	10,950	10,950	10,667	283
Public Transportation				
Levee Maintenance	24,620	24,620	9,386	15,234
Streets	305,314	305,314	1,224,119	(918,805)
Culture and Recreation				
Parks	229,902	229,902	261,901	(31,999)
Total Expenditures	2,044,289	2,044,289	3,407,182	(1,362,893)
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,541	40,541	24,946	(15,595)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out	0	0	(488,194)	(488,194)
Total Other Financing Sources (Uses)	0	0	(488,194)	(488,194)
Net Changes in Fund Balances	40,541	40,541	(463,248)	(503,789)
Fund Balances - Beginning	3,573,644	3,573,644	3,573,644	
Fund Balances - Ending	\$3,614,185	\$3,614,185	\$3,110,396	(\$503,789)

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

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

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS										GOVERNMENTAL ACTIVITIES-	
	CHOKO CANYON		WATER		SEWER		GAS		GARBAGE		INTERNAL SERVICE	
	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	FUND
ASSETS												
Current Assets												
Cash and Cash Equivalents	\$101,456	\$79,019	\$109,413	\$205,605	\$80,978	\$123,184	\$119,095	\$174,536	\$6,048	\$15,705	\$416,990	\$103,464
Accounts Receivables (net of allowance for uncollectibles)	32,371	32,799	36,068	33,167	23,547	21,368	9,052	16,356	13,518	14,738	114,556	
Due from Other Funds			50,847	50,847					6,748	6,707	57,595	
Total Current Assets	133,827	111,818	196,328	289,619	104,525	144,552	128,147	190,892	26,314	37,150	589,141	103,464
Noncurrent Assets												
Restricted Assets:												
Cash and Cash Equivalents	1,743,769	1,742,417	123,932	101,700	173,162	69,646	43,488	42,522			2,084,351	
Total Restricted Assets	1,743,769	1,742,417	123,932	101,700	173,162	69,646	43,488	42,522	0	0	2,084,351	
Other Assets												
Unamortized Bond Issuance Cost	30,000	32,500	27,625	28,438	0	0	0	0	0	0	57,625	
Total Other Assets	30,000	32,500	27,625	28,438	0	0	0	0	0	0	57,625	
Capital Assets												
Land	564,945	246,010	0	498,870	203,270		0	133,820			16,014,978	
Construction in Progress	139,095	103,302	510,868	474,424	179,142	144,097	151,443	846,532				
Machinery and Equipment	3,042,629	3,034,879	7,346,610	6,821,866	4,779,207	4,779,207	846,532				0	
Utility Systems												
Total Capital Assets	3,746,669	3,384,191	8,112,701	8,050,383	5,161,619	4,923,304	997,975	980,352	0	0	18,018,964	
Less Accumulated Depreciation	(469,100)	(379,764)	(3,480,175)	(3,319,820)	(1,240,539)	(1,108,550)	(963,741)	(956,380)			(6,153,555)	
Total Capital Assets (net of accumulated depreciation)	3,277,569	3,004,427	4,632,526	4,730,563	3,921,080	3,814,754	34,234	23,972	0	0	11,865,409	
Total Noncurrent Assets	5,021,338	4,746,844	4,756,458	4,832,263	4,094,242	3,884,400	77,722	66,494	0	0	13,949,760	
TOTAL ASSETS	\$5,185,165	\$4,891,162	\$4,980,411	\$5,150,320	\$4,198,767	\$4,028,952	\$205,869	\$257,386	\$26,314	\$37,150	\$14,596,526	\$103,464

(continued)

(continued)

	CHOKE CANYON				CHOKE CANYON				WATER				WATER				SEWER				SEWER				GAS				GAS				GARBAGE				GARBAGE				TOTALS				GOVERNMENTAL ACTIVITIES-INTERNAL SERVICE FUND
	CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR		CURRENT YEAR		PRIOR YEAR										
	YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR		YEAR												
AND OTHER CREDITS																																													
Liabilities																																													
Current Liabilities (Payable from Current Assets)																																													
Accounts Payable																																													
Accrued Wages																																													
Accrued Interest Payable																																													
Compensated Absences																																													
Due to Other Funds																																													
Revenue Bonds - Current																																													
Total Current Liabilities																																													
Current Liabilities (Payable from Restricted Assets)																																													
Consumer Meter Deposits																																													
Total Current Liabilities																																													
Payable from Restricted Assets																																													
Noncurrent Liabilities																																													
Revenue Bonds Payable (net of unamortized discounts and deferred amount on refunding)																																													
Total Noncurrent Liabilities																																													
Total Liabilities																																													
Net Assets																																													
Invested in Capital Assets, Net of Related Debt																																													
Restricted for:																																													
Debt Service - Expendible																																													
Capital Replacement - Expendible																																													
Unrestricted																																													
Total Net Assets																																													

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

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

	CHOCO CANYON		CHOCO CANYON		WATER		SEWER		GAS		GAS		GARBAGE		TOTALS		GOVERNMENTAL	
	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	CURRENT	PRIOR	INTERNAL SERVICE	FUND
	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	FUND	FUND
OPERATING REVENUES:																		
Charges for Services	\$380,047	\$435,330	\$1,148,319	\$1,207,668	\$295,190	\$273,115	\$209,298	\$200,905	\$169,548	\$158,695	\$2,202,402	\$2,202,402	\$2,202,402	\$2,202,402	\$2,202,402	\$2,202,402	\$440,679	\$440,679
Miscellaneous	4,246	894	181	2,746	23,206	8,108	13	768	72	65	27,718	27,718	27,718	27,718	27,718	27,718		
Total Operating Revenues	384,293	436,224	1,148,500	1,210,414	318,396	281,223	209,311	201,673	169,620	158,760	2,230,120	2,230,120	2,230,120	2,230,120	2,230,120	2,230,120	440,679	440,679
OPERATING EXPENSES:																		
Personal Services	131,557	133,920	438,938	385,748	75,475	72,282	82,235	56,152	163,438	163,815	891,643	891,643	891,643	891,643	891,643	891,643	329,121	329,121
Supplies	1,368	1,293	2,946	1,449	1,194	1,332	1,253	1,463	0	0	6,761	6,761	6,761	6,761	6,761	6,761	151	151
Other Services and Charges	241,194	203,084	711,819	536,354	301,791	153,804	242,319	195,145	3,710	2,219	1,500,833	1,500,833	1,500,833	1,500,833	1,500,833	1,500,833	51,344	51,344
Depreciation	89,336	80,628	160,355	202,277	131,989	124,980	7,361	7,997			389,041	389,041	389,041	389,041	389,041	389,041		
Total Operating Expenses	463,455	418,925	1,314,058	1,125,828	510,449	352,398	333,168	260,757	167,148	166,034	2,788,278	2,788,278	2,788,278	2,788,278	2,788,278	2,788,278	380,616	380,616
Operating Income (Loss)	(79,162)	17,299	(165,558)	84,586	(192,053)	(71,175)	(123,857)	(59,084)	2,472	(7,274)	(558,158)	(558,158)	(558,158)	(558,158)	(558,158)	(558,158)	60,063	60,063
NON-OPERATING REVENUES (EXPENSES):																		
Intergovernmental	0	0	0	514,635	306,408	0	188	179			306,408	306,408	306,408	306,408	306,408	306,408		
Interest Income			837	920	385	589					1,410	1,410	1,410	1,410	1,410	1,410		
Interest and Fiscal Charges	(79,487)	(84,481)	(92,790)	(93,929)	(149,552)	(150,089)					(321,829)	(321,829)	(321,829)	(321,829)	(321,829)	(321,829)		
Total Non-Operating Revenues (Expenses)	(79,487)	(84,481)	(91,953)	421,626	157,241	(149,500)	188	179	0	0	(14,011)	(14,011)	(14,011)	(14,011)	(14,011)	(14,011)		
Income Before Transfers	(158,649)	(67,182)	(257,511)	506,212	(34,812)	(220,675)	(123,669)	(58,905)	2,472	(7,274)	(572,169)	(572,169)	(572,169)	(572,169)	(572,169)	(572,169)	60,063	60,063
Transfers In (Out) - Net	550,116	449,322	119,116	171,902	231,760	187,935	70,700	87,000	0	0	971,692	971,692	971,692	971,692	971,692	971,692	0	0
Change in Net Assets	391,467	382,140	(138,395)	678,114	196,948	(32,740)	(52,969)	28,095	2,472	(7,274)	399,523	399,523	399,523	399,523	399,523	399,523	60,063	60,063
Total Net Assets - Beginning	2,159,107	1,776,967	2,740,553	2,062,439	480,530	513,270	(60,620)	(88,715)	(64,999)	(57,725)	5,254,571	5,254,571	5,254,571	5,254,571	5,254,571	5,254,571	7,564	7,564
Total Net Assets - Ending	\$2,550,574	\$2,159,107	\$2,602,158	\$2,740,553	\$677,478	\$480,530	(\$113,589)	(\$60,620)	(\$62,527)	(\$64,999)	\$5,654,094	\$5,654,094	\$5,654,094	\$5,654,094	\$5,654,094	\$5,654,094	\$67,627	\$67,627

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

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

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS														GOVERN- MENTAL ACTIVITIES-			
	CHOCO CANYON		CHOCO CANYON		WATER		WATER		SEWER		SEWER		GAS		GAS		TOTALS	
	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR
Cash Flows from Operating Activities																		
Receipts From Customers and Users	386,929	440,988	1,141,202	1,203,543	316,202	275,319	220,518	197,587	170,840	155,271	2,235,691	440,679						
Payments to Suppliers	(243,303)	(205,472)	(719,417)	(539,320)	(294,257)	(403,373)	(246,150)	(193,017)	(17,059)	11,268	(1,520,186)	(50,554)						
Payments to Employees	(130,488)	(135,508)	(434,403)	(382,161)	(74,321)	(73,548)	(82,108)	(53,723)	(163,438)	(163,815)	(884,758)	(331,762)						
Net Cash Provided (Used) By Operating Activities	13,138	100,008	(12,618)	282,062	(52,376)	(201,602)	(107,740)	(49,153)	(9,657)	2,724	(169,253)	58,363						
Cash Flows from Non-Capital and Related Financing Activities																		
Transfers In (Out) - Net	550,116	449,322	119,116	171,902	231,760	187,935	70,700	87,000	0	0	971,692	0						
Reimbursement from Federal Prison System	0	0	0	0	0	0	0	0	0	0	0	0						
Subsidy from Federal Grant																		
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	550,116	449,322	119,116	686,537	538,168	187,935	70,700	87,000	0	0	1,278,100	0						
Cash Flows from Capital and Related Financing Activities																		
Principal Payment on Revenue Bonds, Notes and Capital Leases	(100,000)	(90,000)	(27,000)	(25,000)	(37,000)	(35,000)					(164,000)	0						
Proceeds from Capital Debt			0	0	0	0												
Bond Issuance Costs	2,500	2,500	813	813	0	0					3,313							
Interest and Fiscal Charges	(79,487)	(84,481)	(92,790)	(93,929)	(149,552)	(150,089)	0	0	0	0	(321,829)							
Purchases of Capital Assets	(362,478)	(329,212)	(62,318)	(774,053)	(238,315)	(6,361)	(17,623)	0			(680,734)							
Net Cash Provided (Used) By Capital and Related Financing Activities	(539,465)	(501,193)	(181,295)	(892,169)	(424,867)	(191,450)	(17,623)	0	0	0	(1,163,250)	0						
Cash Flows from Investing Activities																		
Interest Received	0	0	837	920	385	589	188	179	0	0	1,410	0						
Net Cash Provided (Used) by Investment Activities	0	0	837	920	385	589	188	179	0	0	1,410	0						
Net Increase (Decrease) in Cash Equivalents	23,789	48,137	(73,960)	77,350	61,310	(204,528)	(54,475)	38,026	(9,657)	2,724	(52,993)	58,363						
Cash and Cash Equivalents at Beginning of Year	1,821,436	1,773,299	307,305	229,955	192,830	397,358	217,058	179,032	15,705	12,981	2,554,334	45,101						
Cash and Cash Equivalents at End of Year	\$1,845,225	\$1,821,436	\$233,345	\$307,305	\$254,140	\$192,830	\$162,583	\$217,058	\$6,048	\$15,705	\$2,501,341	\$103,464						
Unrestricted Assets:																		
Cash and Cash Equivalents	\$101,456	\$79,019	\$109,413	\$205,605	\$80,978	\$123,184	\$119,095	\$174,536	\$6,048	\$15,705	\$416,990	\$103,464						
Restricted Assets:																		
Cash and Cash Equivalents	1,743,769	1,742,417	123,932	101,700	173,162	69,646	43,488	42,522	0	0	2,084,351	0						
Total	\$1,845,225	\$1,821,436	\$233,345	\$307,305	\$254,140	\$192,830	\$162,583	\$217,058	\$6,048	\$15,705	\$2,501,341	\$103,464						
(continued)																		

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS								GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND			
	CHOCOE CANYON WATER CURRENT YEAR	CHOCOE CANYON WATER PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	GARBAGE CURRENT YEAR	GARBAGE PRIOR YEAR	TOTALS CURRENT YEAR	TOTALS PRIOR YEAR		
Reconciliation of operating income to net cash provided (used) by operating activities.	(79,162)	17,299	(165,558)	84,586	(192,053)	(71,175)	(123,857)	(59,084)	2,472	(7,274)	(558,158)	60,063
Operating Income (Loss)												
Adjustments to Reconcile to Net Cash Flow												
Non-Cash Items Included in Net Income	89,336	80,628	160,355	202,277	131,989	124,980	7,361	7,997	0	0	389,041	0
Depreciation												
Changes in Current Items	428	3,322	(2,901)	(11,028)	(2,179)	(5,886)	7,304	(7,941)	1,220	(3,489)	3,872	0
Decrease (Increase) in Accounts Receivable	0	0	0	(158)	0	0	0	0	0	(41)	(41)	0
Decrease (Increase) in Due from Other Funds	(105)	(491)	(4,514)	(1,222)	8,936	(248,390)	(2,578)	3,591	(13,308)	13,507	(11,569)	941
Increase (Decrease) in Accounts Payable	(126)	(240)	4,938	1,460	552	(102)	673	500	0	0	6,037	76
Increase (Decrease) in Accrued Wages	(636)	(604)	(138)	(137)	(208)	153	(546)	1,929	0	0	(882)	(2,717)
Increase (Decrease) in Accrued Interest Payable	1,195	(1,348)	(403)	2,127	602	(1,164)	(3,453)	2,780	0	0	(101)	0
Increase (Decrease) in Compensated Absences	1,008	592	(4,547)	(3,493)	(15)	0	450	1,075	0	0	1,800	0
Increase (Decrease) in Due to Other Funds	1,200	850	150	7,650	0	0	0	0	0	0	0	0
Increase (Decrease) in Consumer Meter Deposits												
	13,138	100,008	(12,618)	282,062	(52,376)	(201,602)	(107,740)	(49,153)	(9,657)	2,724	(169,253)	58,363
Net Cash Provided (Used) By Operating Activities												
Noncash Investing, Capital, and Financing Activities:												
Borrowing from Capital Debt - USDA Federal and State - Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Federal and State - Grants	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	514,635	306,408	0	0	0	0	0	306,408	0
	\$0	\$0	\$0	\$514,635	\$306,408	\$0	\$0	\$0	\$0	\$0	\$306,408	\$0

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

CITY OF THREE RIVERS, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

. Summary of significant accounting policies

A. Reporting entity

The City of Three Rivers, Texas (the "City") has adopted the Provisions and Statutes for cities in the State of Texas and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The City also provides water, sewer, gas utility and sanitation services. The accounting policies of the City of Three Rivers, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Boards (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The government reports the following major governmental and enterprise funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The debt service fund is used to service the general obligation bonds. The capital projects fund is used to administer monies for future capital replacement.

The Choke Canyon Water fund accounts for the activities of Choke Canyon's water operations. The Water fund accounts for the activities of City's water operations. The Sewer fund accounts for the activities of City's sewer operations. The Gas fund accounts for the activities of City's gas operations. The Garbage fund accounts for the City's sanitation activities.

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

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government'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.

State statutes authorize the government and the District to invest in obligations of the U.S. Treasury. Investments for the government are reported at fair value.

2. Receivables and payables

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

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

All utility and property tax receivables are shown net of an allowance for uncollectibles. Utility accounts receivable allowance in excess of 30 days is equal to 5 percent of utility accounts receivable at September 30, 2012, the utility accounts receivable allowance in excess of 60 days is equal to 25 percent of outstanding utility accounts receivable at September 30, 2012, the utility accounts receivable allowance in excess of 90 days is equal to 50 percent of outstanding utility accounts receivable at September 30, 2012, and the utility accounts receivable allowance in excess of 120 days is equal to 100 percent of outstanding trade accounts receivable at September 30, 2012. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2012, and 10 percent of delinquent outstanding property taxes at September 30, 2012.

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

3. Inventories and prepaid items

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

There were no prepaid items at September 30, 2012.

4. Restricted assets

The restricted assets at September 30, 2012 were as follows: 1) to pay debt service (\$17,861) 2) to pay for capital replacement (\$1,934,854), 3) to pay for construction (\$581,195), 4) to pay for tourism (\$48,423), 5) to pay for capital improvement (\$28,471), 6) to pay for fire equipment (\$100,907), 7) to pay for drug enforcement (\$7,072), 8) to pay for street and drainage (\$259,831), and 9) to pay for utility deposits (\$145,429).

5. Capital assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had a water line construction project during the year that was completed at September 30, 2012. The City also had a street construction project during the year that was not completed at September 30, 2012. The City had an additional water line construction project during the year that was not completed at September 30, 2012. The City had a sewer line construction project during the year that was not completed at September 30, 2012.

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

Assets	Years
Buildings	50
Building improvements	20
Public Domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

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

7. Long-term obligations

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

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

8. Fund Balances – Governmental Funds

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

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

Unassigned — all other spendable amounts.

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

Fund Balances:	
Restricted	
Debt Service	\$1,788
Construction	187,256
Committed	
Capital Improvement	28,471
Construction	393,939
Fire Department	100,907
Police Drug Enforcement	7,072
Street and Drainage	259,831
Tourism	48,423
Unassigned	2,271,753
Total Fund Balance	<u>\$3,299,440</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$36,247 difference are as follows:

	\$36,247
Compensated Absences	<u>\$36,247</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,963,959 difference are as follows:

Capital Assets Not Being Depreciated	\$1,212,782
Capital Assets Being Depreciated	1,735,018
Accumulated Depreciation	(983,841)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$1,963,959</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectible.)" The details of this \$25,647 difference are as follows:

Property Taxes Receivable	\$27,849
Allowance for Doubtful Accounts	<u>(2,202)</u>
Net	<u>\$25,647</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this \$144,412 difference are as follows:

Fines and Fees Receivable	\$493,283
Allowance for Doubtful Accounts	<u>(348,871)</u>
Net	<u>\$144,412</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,114,684 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$1,075,543
Capital Outlay - Additions - Being Depreciated	121,636
Capital Outlay - Deletions - Net	0
Depreciation Expense	<u>(82,495)</u>

Net Adjustment to	
Increase Net Changes	
in Fund Balances - Total	
Governmental Funds to	
Arrive at Changes in	
Net Assets of	
Governmental Activities	<u>\$1,114,684</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

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

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

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2012.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the streets, municipal court, and the police departments by \$918,805, \$99,833, and \$223,490, respectively. Overall, total expenditures were over the budgeted amount of \$2,044,289 by \$1,362,893.

C. Deficit fund equity/net assets

The City had no deficit fund balances/net assets as of September 30, 2012 except for deficit fund balances/net assets in the Gas Fund and the Garbage Fund which had deficit fund balances of \$113,589 and \$62,527, respectively. These deficits are expected to be liquidated by future resources of these funds.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

- a. *Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of September 30, 2012, the government's bank balance of \$4,312,560 was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$5,072,065 and the FDIC coverage is \$257,072.

The City's had no investments at September 30, 2012.

B. Receivables

Receivables as of year end for the governmental activities and the business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	GENERAL	DEBT SERVICE	CHOKE CANYON WATER	WATER	SEWER	GAS	GARBAGE	Total
<u>Receivables</u>								\$27,849
Taxes	\$14,813	\$13,036						385,877
Accounts			33,408	276,634	33,422	19,430	22,983	493,283
Fines	493,283							4,255
Other	4,255							911,264
Gross Receivables	512,351	13,036	33,408	276,634	33,422	19,430	22,983	
Less: Allowance for Uncollectibles	350,042	1,031	1,037	240,566	9,875	10,378	9,465	622,394
Net Total Receivables	<u>\$162,309</u>	<u>\$12,005</u>	<u>\$32,371</u>	<u>\$36,068</u>	<u>\$23,547</u>	<u>\$9,052</u>	<u>\$13,518</u>	<u>\$288,870</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (General fund)	\$ 13,642
Delinquent property taxes receivable (Debt service fund)	<u>12,005</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 25,647</u>

C. Capital assets

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

Governmental Activities:	Beginning			Ending
Capital Assets Not Being Depreciated:	Balances	Increases	Decreases	Balances
Land	\$137,239	\$0	\$0	\$137,239
Construction in Progress	0	1,075,543	0	1,075,543
Total Capital Assets Not Being Depreciated:	137,239	1,075,543	0	1,212,782

Capital Assets Being Depreciated:				
Building and Improvements	954,198	0	0	954,198
Machinery, Equipment and Vehicles	513,296	121,636	0	634,932
Infrastructure	145,888	0	0	145,888
Total Capital Assets Being Depreciated:	1,613,382	121,636	0	1,735,018

Less: Accumulated Depreciation for:				
Building and Improvements	393,618	20,779	0	414,397
Machinery, Equipment and Vehicles	368,107	61,571	0	429,678
Infrastructure	139,621	145	0	139,766
Total Accumulated Depreciation	901,346	82,495	0	983,841
Total Capital Assets Depreciated, Net	712,036	39,141	0	751,177
Governmental Activities Capital Assets, Net	\$849,275	\$1,114,684	\$0	\$1,963,959

Business-Type Activities:	Beginning			Ending
Capital Assets Not Being Depreciated:	Balances	Increases	Decreases	Balances
Land	\$255,223	\$0	\$0	\$255,223
Construction in Progress	744,880	522,205	498,869	768,216
Total Capital Assets Not Being Depreciated:	1,000,103	522,205	498,869	1,023,439

Capital Assets Being Depreciated:				
Machinery, Equipment and Vehicles	862,444	124,904	0	987,348
Utility Systems	15,482,483	532,494	0	16,014,977
Total Capital Assets Being Depreciated:	16,344,927	657,398	0	17,002,325

Less: Accumulated Depreciation for:				
Machinery, Equipment and Vehicles	729,616	79,471	0	809,087
Utility Systems	5,041,698	309,570	0	5,351,268
Total Accumulated Depreciation	5,771,314	389,041	0	6,160,355
Total Capital Assets Depreciated, Net	10,573,613	268,357	0	10,841,970
Proprietary Fund Capital Assets, Net	\$11,573,716	\$790,562	\$498,869	\$11,865,409

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

Governmental Activities	\$6,892
General Administration	38,677
Public Safety	21,041
Public Transportation	15,885
Culture and Recreation	<u>58,295</u>
Total Depreciation Expense - Governmental Activities	<u>\$82,495</u>

Business-Type Activities	\$89,336
Choke Canyon Water	160,355
Water	131,989
Sewer	7,361
Gas	<u>1,900</u>
Total Depreciation Expense - Business-Type Activities	<u>\$389,041</u>

Construction commitments

The City had a water line construction project during the year that was completed at September 30, 2012. The City also had a street construction project during the year that was not completed at September 30, 2012. The City had an additional water line construction project during the year that was not completed at September 30, 2012. The City had a sewer line construction project during the year that was not completed at September 30, 2012.

D. Inter-fund receivables, payables, and transfers

The due to/from other funds at the year ended September 30, 2012 were as follows:

<u>DUE TO/FROM</u>	<u>TO</u>	<u>AMOUNT</u>	<u>REASON</u>	<u>EXPECTED TO BE LIQUIDATED</u>
<u>FROM</u>				
CHOKE CANYON WATER	GENERAL FUND	1,139,077	UTILITY OPERATIONS	WITHIN YEAR
WATER FUND	GENERAL FUND	148,351	UTILITY OPERATIONS	WITHIN YEAR
SEWER FUND	GENERAL FUND	198,957	UTILITY OPERATIONS	WITHIN YEAR
GAS	GENERAL FUND	296,828	UTILITY OPERATIONS	WITHIN YEAR
GARBAGE FUND	GENERAL FUND	80,947	UTILITY OPERATIONS	WITHIN YEAR
		<u>\$1,864,160</u>		

There were no advances at September 30, 2012.

The following inter-fund fund transfers for the year ended September 30, 2012 were recurring transfers.

<u>TRANSFER IN - INTERFUND</u>					
<u>TRANSFER OUT</u>	CHOKE CANYON WATER	WATER FUND	SEWER FUND	GAS FUND	TOTAL
GENERAL FUND	\$372,493		\$45,000	\$70,700	\$488,193
DEBT SERVICE FUND	177,623	119,116	186,760		483,499
TOTALS	<u>\$550,116</u>	<u>\$119,116</u>	<u>\$231,760</u>	<u>\$70,700</u>	<u>\$971,692</u>

E. Leases

There were no Operating Leases or Capital Leases at September 30, 2012.

F. Long-term debt

Certificates of Obligation and Revenue Bonds

The government issues general obligation bonds and revenue bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of Obligation bonds and revenue bonds have been issued for both governmental and business-type activities. The original amount of revenue bonds issued in prior years was \$7,619,000.

Certificates of Obligation bonds are direct obligations and pledge the full faith and credit of the government and the revenue bonds are secured solely by specified revenue sources. General obligation bonds and revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Business-type activities	5.090	\$ 1,475,000
Business-type activities	4.375	832,000
Business-type activities	4.375	1,260,000
Business-type activities	4.500	3,291,000

Annual debt service requirements to maturity for the general obligation and revenue bonds are as follows:

Year Ending September 30,	Business-Type Activities	
	Principal	Interest
2013	\$171,000	\$312,100
2014	179,000	303,718
2015	187,000	294,892
2016	196,000	285,721
2017	204,000	276,106
2018-2022	1,181,000	1,219,801
2023-2027	729,000	974,527
2028-2032	693,000	834,290
2033-2037	861,000	666,340
2038-2042	1,071,000	456,730
2043-2047	1,210,000	196,310
2048	176,000	7,920
	<u>\$6,858,000</u>	<u>\$5,828,455</u>

Changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due After One Year
<u>Governmental Activities:</u>						
Compensated Absences	\$51,191	\$49,131	\$51,191	\$49,131	\$49,131	\$0
	51,191	49,131	51,191	49,131	49,131	0
<u>Business-Type Activities:</u>						
Revenue Bonds	1,575,000	0	100,000	1,475,000	105,000	1,370,000
Total Bonds Payable	1,575,000	0	100,000	1,475,000	105,000	1,370,000
Certificates of Obligation	5,447,000	0	64,000	5,383,000	66,000	5,317,000
Total Certificates of Obligation Payable	5,447,000	0	64,000	5,383,000	66,000	5,317,000
Compensated Absences	27,352	28,200	27,352	28,200	28,200	0
	7,049,352	28,200	191,352	6,886,200	199,200	6,687,000
Grand Total	<u>\$7,100,543</u>	<u>\$77,331</u>	<u>\$242,543</u>	<u>\$6,935,331</u>	<u>\$248,331</u>	<u>\$6,687,000</u>

The Water, the Sewer, and the Choke Canyon Water funds are used to service the revenue bonds. The compensated absences payable at September 30, 2012 were \$77,331 and are to be serviced by the General fund and the Utility funds.

The government-wide statement of activities includes \$248,331 as "noncurrent liabilities, due within one year".

There was no interest capitalized.

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

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

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

B. Related party transaction

There were no related party transactions during the year.

C. Subsequent events

On February 11, 2013, City Council approved an ordinance authorizing the issuance of the "City of Three Rivers, Texas General Obligation Refunding Bonds, Series 2013". The proceeds of \$5,382,136 were used to refund the Water fund Series A and B and the Sewer fund series 2008.

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.

Lino Gonzalez v. City of Three Rivers – TWC – he alleges he was wrongfully terminated; covered by insurer. TWC issued a determination on July 1, 2012 approving unemployment payment, the city appealed and the decision was reversed, Mr. Gonzalez appealed to the Tribunal, but the Tribunal affirmed the decision in favor of the City.

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
EMPLOYEE DEPOSIT RATE
MATCHING RATIO (city to employee)
YEARS REQUIRED FOR VESTING
SERVICE RETIREMENT ELIGIBILITY
(expressed as age/years of service)
UPDATED SERVICE CREDIT

ANNUITY INCREASE (to retirees)

2011	2012
5.00%	5.00%
1 to 1	1 to 1
5	5
60/5, 0/25	60/5, 0/25
100% repeating	100% repeating
70% of CPI repeating	70% of CPI repeating