



Control Number: 47112



Item Number: 1

Addendum StartPage: 0



Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Chapter 13.251 of the Texas Water Code

RECEIVED

2017 MAY -1 AM 10:28

PUBLIC UTILITY COMMISSION
FILING CLERK

Docket Number: 47112

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, along with one copy of the portable electronic storage medium (such as CD or DVD) containing the GIS data shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

No later than seven days after filing the application for the boundary change, provide a copy of each paper map and a portable electronic storage medium (such as CD, flash drive or DVD) containing complete and identical data to the portable electronic storage medium submitted above to

Texas Natural Resources Information System
1700 N. Congress Ave, Room B40
Austin, Texas 78701

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Part A - General Information

*RN# 104394168 *CN# (PRIOR TCEQ ID numbers)

1. Proposed action of application (check all the boxes that apply):

☒ Sale of ☒ All ☐ Portion of the ☒ Water system(s) under CCN No.: 13071
☐ Acquisition ☒ Sewer system(s) under CCN No.: 20968
☐ Lease/Rental

☒ Transfer of ☒ All ☐ Portion of the ☒ Certificated water service area - CCN No.: 10371
☒ Certificated sewer service area - CCN No.: 20968

If only a portion of a system or certificated service area is affected by this transaction, please specify the areas or subdivision involved:

and to:

☐ Obtain a CCN for the transferee (purchaser) - indicate if purchaser will take the seller's CCN
☐ Amend the transferee's CCN No.:
☐ Merge or consolidate public utilities
☒ Cancel CCN of the transferor (seller)

2. Proposed effective date of this transaction:

(Must be at least 120 days after proper notice is provided)

Part B - Current Service Provider or Seller Information

Questions 3 through 5 apply to the transferor (current service provider or seller)

3. For the current CCN holder or service provider please indicate:

A. Name: Parker Creek Estates LP
(Individual, Corporation or Other Legal Entity)

who is a(n):of ☐ Individual ☐ Corporation ☐ WSC ☐ HOA or POA ☒ Other Ltd. Ptnrship.

B. Utility Name (if different than above):
Address: 4833 Spicewood Springs Road #202 Austin TX 7875 Telephone: (AC) (512) 346-4011

C. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name: Mark H. Zeppa Title: Attorney
Address: 4833 Spicewood Springs Rd #202 Austin TX Telephone: (AC) (512) 346-4011

4. About the last rate increase for the system or facilities being transferred:

A. What was the effective date of the last rate increase?

B. Was notice of this increase provided to the Public Utility Commission of Texas (commission or PUC) or a predecessor regulatory authority?

☐

No

☐

Yes- Application/Docket Number:

Date

5. Please provide a list of all customers affected by this transaction who have deposits held by the transferor or seller utility, if any, and include the following information (attach additional sheets if necessary):

Name and Address of Utility Customer	Date of Deposit	Amount of Deposit	Amount of Unpaid Interest on Deposit
None			

Part C - Purchaser or Transferee Information

Questions 6 through 16 refer to the transferee or purchaser.

6. For the person or entity acquiring the facilities and/or CCN:

Applicant: City of Royse City

(Individual, Corporation, or Other Legal Entity)

Utility Name:

(If different than above)

Utility Address: PO Box 638 Royse City TX 75189

Fax: (972) 635-2434

Email:

Telephone (AC):

(972) 636-2250

CCN Numbers held prior to the filing of this application:

12827, 20813, 20958, 1310

7. Check the appropriate box and provide information regarding the legal status of the transferee applicant:

☐

Individual

☐

Home or Property Owners Association

☐

Partnership; attach copy of partnership agreement

☐

Corporation; provide charter number as recorded with the Office of the Secretary of State for

☐

Texas:

☐

Non-profit, member owned, member-controlled Cooperative Corporation (Article 1434(a) Water Sewer Service Corporation); provide charter number:

<input checked="" type="checkbox"/>	Municipally-owned utility
<input type="checkbox"/>	District (MUD, SUD, WCID, etc.)
<input type="checkbox"/>	County
<input type="checkbox"/>	Other (please explain):

8. If the applicant is an *Individual* or sole proprietorship, provide the following information. If not, skip to the next question.

Name:			Email:	
Address:				
Telephone (AC):		Fax (AC):		

9. If the applicant is other than an *Individual*, provide the following information regarding the officers or partners of the legal entity applying for the transfer. You must complete either question 8 or question 9, whichever applies to the transferee applicant.

•Name:	Charles Houk	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Council Member	Ownership % (if applicable):	0.00%

•Name:	Janet Nichol	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Mayor	Ownership % (if applicable):	0.00%

•Name:	Bruce Bradley	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Council Member	Ownership % (if applicable):	0.00%

•Name:	Tom Crowley	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Council Member	Ownership % (if applicable):	0.00%

•Name:	Clay Ellis	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Council Member	Ownership % (if applicable):	0.00%

•Name:	Matt Wheatley	Telephone (AC):	(972) 636-2250
Address:	PO Box 638, Royse City, TX 75189		
Position:	Council Member	Ownership % (if applicable):	0.00%

– Attach additional sheet(s) if necessary –

- Important:** • If the applicant is a for-profit corporation, please provide a copy of the corporation's "Certification of Account Status" from the State Comptroller Office. This "Certification of Account Status" can be obtained from:

Texas Comptroller of Public Accounts
P. O. Box 13528, Capitol Station
Austin, Texas 78711
1-800-252-5555

5

- If the applicant is an Article 1434a water supply or sewer service corporation or other non-profit corporation, please provide a copy of the Articles of Incorporation and By-Laws.

10. Contact person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney or accountant.

Name:	Carl Alsabrook	Title:	City Manager
Address:	PO Box 68, Royse City TX 75189	Telephone (AC):	(972) 636-2250
Fax #		Email	
Relationship to the applicant:			

IF THERE ARE MORE THAN TWO PARTIES INVOLVED IN THIS TRANSACTION, PLEASE ATTACH SHEETS PROVIDING THE INFORMATION REQUIRED IN QUESTION 6 THROUGH QUESTION 10 FOR EACH PARTY

11. Please respond to each of the following questions. Attach additional sheets if necessary.

A. Describe the experience and qualifications of the applicant to provide adequate utility service to the requested area.

The City is a regional water/wastewater service provider with adequate capacities to serve additional portions of the region. It will be acquiring facilities and service capacity compliant with TCEQ regulations.

B. Has the applicant acquiring the CCN or facilities or an affiliated interest of the applicant been under enforcement action by the PUC, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG) or the Environmental Protection Agency (EPA) in the past for noncompliance with rules, orders or State Statutes? ☐ Yes ☒ No

If yes, please attach copies of any correspondence with these regulatory agencies concerning these enforcement actions and describe any actions and efforts to comply with those requirements. Attach additional sheets if needed.

C. Describe the source and availability of funds required to make the planned or required improvements, if any, to meet minimum requirements of the TCEQ and PUC and ensure continuous and adequate service.

No improvements are planned or required. Capital will come from internal capital and full faith and credit of the municipality.

D. Describe the anticipated impact of this transaction on the quality of utility service and explain any anticipated changes in the quality of service.

6

Acquired facilities will become part of a larger municipally owned regional service provider. As areas are annexed, customers will be able to elect the management of the service provider.

E. How will the transaction serve the public interest?

Current state law has provisions for municipalities to serve areas that they annex. This voluntary transaction will achieve that purpose without litigation expense and disruption of service for customers.

12. Please describe the nature of the proposed transaction:

Sale of the assets and transfer of the certificated service area from Parker Creek Estates to the City.

13. If the transferee applicant is an Investor Owned Utility (IOU) and will be under the rate jurisdiction of the PUC, please provide the following information. Water supply or sewer service corporations and political subdivisions of the state should mark this section N/A:

A.

- Total Purchase Price:
- Total Original Cost (as recorded on books of seller or merging entity):
- Accumulated Depreciation as of the proposed effective date of the transaction:
- Contributions in Aid of Construction:
 - Specific surcharges approved by TCEQ or PUC:
 - Revenues from explicit customer agreements:

- Developer Contributions (please explain):

- Other Contributions (please explain):

Total Contributions in Aid of Construction

• Net Book Value:

- ☐ If the Original Cost or any of the above items has been established in a rate case proceeding by the PUC, the TWC or the TCEQ, please provide the Application/Docket Number and date:

Application/Docket Number: Date:

- ☐ If the applicant is not under the rate jurisdiction of the TCEQ, only the purchase price and information related to Contributions in Aid of Construction is required.

Please provide any other information concerning the nature of the transaction you believe should be given consideration if not explained elsewhere in the application.

[attach additional sheet(s) if necessary]:

See attached contracts between the parties.

- C. Complete the following proposed entries listed below as shown in books of purchasing (or surviving) company. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations.

Utility Plant in Service:	<input type="text"/>
Plant Acquisition Adjustment:	<input type="text"/>
Extraordinary Loss on Purchase:	<input type="text"/>
Accumulated Depreciation of Plant:	<input type="text"/>
Cash:	<input type="text"/>
Notes Payable:	<input type="text"/>
Mortgage Payable:	<input type="text"/>
Others (please list):	<input type="text"/>

As the purchaser, I understand that it is **my responsibility** in any future rate proceeding to provide written evidence and support for the original cost and installation date of all facilities used and useful for providing utility service.

Purchaser's Initials: Date:

14. Please indicate the proposed effect of this transaction on the rates to be charged to the affected customers:

☐ All the customers will be charged the same rates as they were charged before the transaction.
☐ Some ☐ All customers will be charged different rates than they were charged before the transaction.

If rates are changing, please explain:

City will ultimately change the rates under its authority which does not require PUC approval. Applicant is not an IOU.

☐ Applicant is an IOU and intends to file with the commission or municipal regulatory authority an application to change rates of some/all of its customers as a result of this transaction. If so, please explain:

☐ Other. Please explain:

15. List all neighboring water and /or sewer utilities, cities, and political subdivisions providing the same service within two (2) miles of area affected by this proposed transaction. This information should be available from the water utility database (WUD) or Applicant's licensed water operator.

BHP Water Supply Corporation 10064
CASH SUD 10824
Blackland Water Supply Corporation 11305
City of Fate 12889

16. Financial, Managerial and Technical information for the acquiring entity.

17. A. For Water Systems. TCEQ Public Water System Identification Number:

1	2	3	4	5	6	7
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-TCEQ Discharge Permit Number:

W Q

4	5	6	7	8
9	10	11	12	13

[illegible][illegible]

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7

☐ Yes

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☒ Yes

[illegible]☒

Yes

No

0

Water

0

Sewer

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20. Do you currently purchase water or sewer treatment capacity from another source? ☒ Yes ☐ No 10
☒ Water ☒ Sewer Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency Basis

• Source: North Texas Municipal Water District % of total supply: 100.00%

21. List the number of existing connections to be effected by this transaction.

Water			Sewer		
	-Non Metered			-2" meter	
	-5/8" or 3/4" meter			-3" meter	
	-1" meter			-4" meter	
	-1 1/2" meter			-Other	
Total Water Connections:				Total Sewer Connections	
					0

20. Has the system reached 85% of its capacity based on TCEQ's minimum requirements? ☐ Yes ☒ No
 If yes, please explain what steps are being taken to address the capacity issues:

23. List the name, class, and license number of the operator(s) that will be responsible for the system:

Name	Class	License#
Dario Lopez Jr.	C	WD0007518
Dario Lopez Jr.	WW Collection Operator II	WW0041119
Joshua K. White	C	WD0007752
Joshua K White	WW Collection Operator II	WW0038145
Christopher W. McDaniel	C	WD0012904

24. Attach the following maps with each copy of the application:

- One small scale map clearly showing affected service area with enough detail to accurately locate the area if the application is for the transfer of all or a portion of a CCN.
- One large scale map showing the proposed service area boundaries being sold, transferred, or merged and, if available, the existing and proposed facilities. Color coding should be used to differentiate existing from proposed facilities. Facilities and service area boundaries should be shown with such exactness that they can be located on the ground. If transferring area not currently in a CCN or a portion of an existing CCN area please attach the following hard copy maps with each copy of the application:
 - A general location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
 - A map showing only the proposed area by:
 - metes and bounds survey certified by a licensed state or registered professional land surveyor; or
 - projectable digital data with metadata (proposed areas should be in a single record and clearly labeled, data disk should be included); or
 - following verifiable natural and man-made landmarks, or
 - a copy of recorded plat map with metes and bounds.
 - A written description of the proposed service area.

Part G – Oaths and Notices

OATH FOR SELLER OR FORMER SERVICE PROVIDER

STATE OF _____

COUNTY OF _____

I, _____, being duly sworn, file this application for sale, lease, rental or merger or consolidation as _____ (*indicate relationship to applicant*) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant; that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Section 13.301(j) and copies of any outstanding Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Section 13.301(k) of the Texas Water Code.

AFFIANT

(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this
day _____ of _____, 20 _____.

SEAL

NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES _____

One copy of this page must be submitted for each utility involved in this transaction.

OATH FOR PURCHASER OR ACQUIRING ENTITY

STATE OF _____

COUNTY OF _____

I, _____, being duly sworn, file this application for

sale, lease, rental or merger or consolidation as _____
(indicate relationship to applicant) that is, owner, member of partnership, title as officer of corporation, or other authorized representative of applicant; that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I am also authorized and do agree to be bound by and comply with any outstanding orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.

AFFIANT

(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

Applicant represents that all other parties to this transaction have been furnished copies of this completed application.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this
 day _____ of _____, 20 _____.

SEAL

NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS_____
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES _____

One copy of this page must be submitted for each utility involved in this transaction.

Notice to Current Customers, Neighboring Systems and Cities

Parker Creek Estates LP 'S
(Seller's or Transferor's Name)

**NOTICE OF INTENT TO SELL FACILITIES AND TRANSFER CERTIFICATE OF CONVENIENCE AND
NECESSITY (CCN) NO**

13071/20968TO City of Royse City

(Purchaser's or Transferee's Name)

IN Rockwall COUNTY, TEXAS

To: Date Notice Mailed , 20
(Name of Customer, Neighboring System or City)

(Address)

City State Zip

Parker Creek Estates LP	8222 Douglas Avenue Suite 660	Dallas/TX/75225
Sellers or Transferors' Name	Address	City/State/Zip Code

has submitted an application with the Public Utility Commission of Texas to sell facilities and transfer
water or sewer (please select) CCN No. 13071/20968 in Rockwall [County Name]

County to:

City of Royse City	PO Box 638	Royse City/TX/75189
Purchasers or Transferee's Name	Address	City/State/Zip Code

The sale is scheduled to take place as approved by the Commission (V.T.C.A., Water Code §13.301). The transaction and the transfer of the CCN include the following subdivision(s):

Parker Creek Estates

The area subject to this transaction is located approximately 3 miles south [direction] of
downtown Royse City, [City or Town] Texas, and is generally bounded on the north by

FM 548 and Crenshaw Road; on the east by Crenshaw Road
; on the south by Parker Creek; and on the west by FM 548 and Parker Creek

The total area being requested includes approximately 220 acres and serves 0 current customers.

This transaction will have the following effect on the current customer's rates and services:

There are no current customers.

Affected persons may file written protests and/or request a public hearing within 30 days of this notice.

To request a hearing, you must:

- (1) state your name, mailing address and daytime telephone number;
- (2) state the applicant's name, application number or another recognizable reference to this application;
- (3) include the statement "I/we request a public hearing";
- (4) write a brief description of how you, the persons you represent, or the public interest would be adversely affected by the proposed transaction and transfer of the CCN; and
- (5) state your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Only those persons who submit a written request to be notified of a hearing will receive notice if a hearing is scheduled. The Commission will issue the CCN requested in the referenced application unless a hearing is scheduled to consider the transaction. If no protests or requests for hearing are filed during the comment period, the Commission may issue the CCN 30 days after publication of this notice.

Persons who wish to protest or request a hearing on this application should write the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

**Se desea informacion en Espanol, puede llamar al
1-888-782-8477**

Utility Representative

Utility Name

ADDITIONAL INFORMATION
SALE, TRANSFER, MERGER APPLICATION

14. No rates are currently being charged. City Council will set appropriate rates for these affected customers after the transaction has closed.

16. See attached financial information. Royse City is a home rule city with an excellent credit rating. It will be acquiring the affected service area and utility plant without significant capital outlay by the City. As a Texas municipality, Royse City is required to prepare annual budgets and will do so in the future incorporating these new utility service areas. This budgeting process has not yet occurred for these areas.

To demonstrate Royse City's financial resources, the parties submit copies of its five most recent annual audits and budgets. No material changes are expected during the initial developer periods of the affected service areas since the developer will be providing the capital necessary to start up the utilities. Waiver of any additional FMT data is requested.

17.A. Since there are no customers yet receiving potable water service, the TCEQ has not yet issued a PWS number for this system.

17.B. This sewer system will not have a TPDES or water quality permit number because all sewage will be treated and disposed of by a third party wholesale service provider. This provider will be a regional water district.

18. Yes. The systems are not built but will be built to meet all necessary TCEQ standards.

19. See attached Development Agreement.

21.	Joseph A. Adams	Water Operator D	WO0037411
	Dylan R. Tawwater	Water Operator D	WO0037416
	Joshua K. White	Customer Service Insp.	CI0007351
	Joshua K. White	Backflow Prev Assembly Tester	BP0014006

Bryan W. Shaw, Ph.D., P.E., *Chairman*
 Toby Baker, *Commissioner*
 Jon Niermann, *Commissioner*
 Richard A. Hyde, P.E., *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

September 16, 2016

The Honorable Janet Nichol
 Mayor of Royse City
 PO Box 638
 Royse City, Texas 76249

Re: Notice of Compliance with Notice of Violation (NOV) dated May 27, 2016:
 City of Royse City PWS, 1101 N Josephine, Royse City, Rockwall County, Texas
 RN101391696, PWS ID No. 1990002, Investigation No. 1330579, Incident No. 228753

Dear Mayor Nichol:

This letter is to inform you that Texas Commission on Environmental Quality (TCEQ) Dallas/Fort Worth (D/FW) Regional Office has received adequate compliance documentation on August 23, 2016, to resolve the alleged violation documented during the investigation of the above-referenced regulated entity conducted on April 5, 2016. Based on the information submitted, TCEQ records indicate that compliance with the above-referenced NOV has been achieved.

The TCEQ appreciates your assistance in this matter and your compliance efforts to ensure protection of the State's environment. If you or members of your staff have any questions, please feel free to contact Ms. Crystal Watkins at the D/FW Regional Office at (817) 588-5804.

Sincerely,

Charles Marshall
 Team Leader, Public Water Supply Program
 D/FW Regional Office
 Texas Commission on Environmental Quality

CM/cdw

Enclosure: Summary of Investigation Findings

Cc: Mr. Dario Lopez, City of Royse City, PO Box 638, Royse City, Texas 76249

Summary of Investigation Findings

CITY OF ROYSE CITY PWS

1101 N JOSEPHINE

ROYSE CITY, ROCKWALL COUNTY, TX 75189

Investigation #

1358630

Investigation Date: 09/06/2016

Additional ID(s): 1990002

ALLEGED VIOLATION(S) NOTED AND RESOLVED

Track No: 603104

30 TAC Chapter 290.110(c)(5)

Alleged Violation:

Investigation: 1330579

Comment Date: 05/17/2016

Failure to perform chloramine effectiveness sampling.

30 TAC 290.110(c)(5) states that public water systems with a chloramine residual shall monitor to ensure that monochloramine is the prevailing chloramine species and that nitrification is controlled. Sample sites and procedures used for chloramine effectiveness sampling must be documented in the system's nitrification action plan (NAP) required by §290.46(z) of this title (relating to Minimum Acceptable Operating Practices for Public Drinking Water Systems). Sample results determined by monitoring required under this paragraph will not be used to determine compliance with the maximum contaminant levels, MRDLs, action levels, or treatment techniques of this subchapter.

On the day of the investigation, the water system distributes chloraminated water but was not monitoring the monochloramine and free ammonia to ensure that monochloramine was the prevailing chloramine species. Nitrate and nitrite were also not being monitored to ensure nitrification is controlled.

Investigation: 1345369

Comment Date: 07/31/2016

Failure to perform chloramine effectiveness sampling.

During the file record review investigation, compliance documentation submitted by the water system was not sufficient to resolve the alleged violation.

Investigation: 1358630

Comment Date: 09/06/2016

Failure to perform chloramine effectiveness sampling

During the file record review investigation, compliance documentation had been submitted by the water system to resolve the alleged violation.

Recommended Corrective Action: Begin monitoring for total chlorine, monochloramine, free ammonia, nitrate, and nitrite levels at the entry point and in the distribution system at the frequency required by 30 TAC 290.110(c)(5). Provide one month of documentation to the regional office to verify that the alleged violation has been resolved.

Resolution: On August 23, 2016, the water system provided one month's worth of sampling data for total chlorine, monochloramine, and free ammonia. It appears the alleged violation has been resolved.

**AGREEMENT CONCERNING OPERATION
OF THE PARKER CREEK MUNICIPAL UTILITY DISTRICT
OF ROCKWALL COUNTY**

This Agreement Concerning Operation of the Parker Creek Municipal Utility District of Rockwall County (this "Agreement") is entered into by the City of Royse City, Texas (the "City") and the Parker Creek Municipal Utility District of Rockwall County, a municipal utility created pursuant to Article XVI, Section 59, and Article III, Section 52, of the Texas Constitution (the "District"), to be effective ~~November 1, 2008~~ (the "Effective Date").
upon the effective date of the Parker Creek Agreement BC

**ARTICLE I
RECITALS**

WHEREAS, Parker Creek Estates, L.P., a Texas limited partnership (the "Owner"), is the owner of an approximately 310.205-acre tract in Rockwall County, Texas, described on Exhibit A (the "Property"); and

WHEREAS, the District encompasses the Property; and

WHEREAS, the District was created by order of the Texas Commission on Environmental Quality ("TCEQ") dated June 20, 2004; and

WHEREAS, the powers of the District were amended by Chapter 8123, Special District Local Laws Code, as amended by S.B. 2054 adopted by the 80th Texas Legislature; and

WHEREAS, the Owner and the City entered into that certain "City of Royse City/Parker Creek Settlement Agreement" effective on June 3, 2004 (the "Settlement Agreement"); and

WHEREAS, since the effective date of the Settlement Agreement, many of the issues addressed by the Settlement Agreement have been resolved and the Owner and the City have negotiated the Parker Creek Development Agreement (the "Development Agreement") which will replace the Settlement Agreement in its entirety; and

WHEREAS, the Settlement Agreement states that it may be amended only with the written consent of the City, the Owner and the District; and

WHEREAS, the purposes of this Agreement are for the District to consent to amending and restating the Settlement Agreement by execution of the Development Agreement and to agree to be bound by certain provisions contained in the Development Agreement; and

WHEREAS, the Blackland Water Supply Corporation ("Blackland") holds the certificate of convenience and necessity ("CCN") to provide retail water service to approximately 90 acres within the Property (the "Blackland Water CCN"); and

WHEREAS, the Owner holds CCN No. 13071 (the "Water CCN") to provide retail water service to the approximately 220 acres of the Property that are not included within the Blackland Water CCN, and previously agreed to transfer the Water CCN to the District in

consideration for the District's agreement to reimburse the Owner for all of the costs incurred in connection with securing and transferring such CCN; and

WHEREAS, pursuant to the Development Agreement and at the request of the District, the Owner has agreed to transfer the Water CCN to the City at no charge upon the City's approval of the first final plat for all or a portion of the Property; and

WHEREAS, if the District obtains the Blackland Water CCN, the District will transfer such CCN to the City at no charge; and

WHEREAS, the Owner holds CCN No. 20968 to provide retail wastewater service to the Property the ("Wastewater CCN") and previously agreed to transfer the Wastewater CCN to the District in consideration for the District's agreement to reimburse the Owner for all of the costs incurred in connection with securing and transferring such CCN; and

WHEREAS, pursuant to the Development Agreement and at the request of the District, the Owner has agreed to transfer the Wastewater CCN to the City at no charge upon the City's approval of the first final plat of all or a portion of the Property; and

WHEREAS, the District acknowledges that the transfer of the Water CCN and the Wastewater CCN by Owner to the City is for the benefit of the District and its landowners, taxpayers and customers, and has reaffirmed its agreement to reimburse Owner for all of its costs incurred in connection with securing the issuance and transfer thereof; and

WHEREAS, the City and the North Texas Municipal Water District ("NTMWD") are parties to an agreement pursuant to which NTMWD serves as the City's wholesale wastewater provider and agrees to accept and treat the City's wastewater, including wastewater generated by the development and use of the Property; and

WHEREAS, with the Owner's consent, the District proposes to provide retail water and wastewater service to all portions of the Property included within the Water CCN and Wastewater CCN until such CCNs are transferred to the City; and

WHEREAS, the City will be the retail provider of water service to all portions of the Property for which the City holds the water CCN and the retail provider of wastewater service to all portions of the Property for which the City holds the wastewater CCN, and will charge retail customers within the Property a maximum of the base rate the City charges its residents and a maximum of 120% of its in-city water and wastewater rate that is based on usage; and

WHEREAS, the City agrees that it will provide service to the Property in the same manner it services its in-city customers, except as otherwise provided in this Agreement; and

WHEREAS, the City and the District are each political subdivisions of the State of Texas with the authority, pursuant to Chapter 791, Texas Government Code, Chapter 30 and Section 49.213, Texas Water Code, and Texas Local Government Code, Section 402.014, to enter into this Agreement and, to the extent authorized by such statutes, to contract with respect to the performance of governmental functions; and

WHEREAS, the City and the District are individually referred to as a "Party" and collectively referred to as the "Parties".

NOW THEREFORE, for and in consideration of the mutual agreements, covenants, and conditions hereinafter set forth, the Parties contract and agree as follows:

ARTICLE II

UTILITY SERVICE

2.1 Retail Utility Service; Certificates of Convenience and Necessity.

(a) The Owner shall pursue the process identified in Section 13.254(a-1) of the Texas Water Code for revocation or amendment of the Blackland Water CCN on behalf of the District and for the benefit of the District, in accordance with the Development Agreement. If the District obtains the Blackland Water CCN, the District will transfer that CCN to the City at no cost to the City. If the Texas Legislature adopts new legislation in the next legislative session that amends the processes in Sections 13.254 or 13.255 of the Texas Water Code, the Parties will discuss how the legislation impacts the ability of the Owner, the District, or the City to obtain the Blackland Water CCN and determine whether the Owner, the District, or the City should proceed under the new legislation.

(b) The District acknowledges and agrees that the City will not provide wastewater service to any portion of the Property for which it does not hold the CCN allowing the City to provide retail water service.

(c) Pursuant to the Development Agreement and at the request of the District, the Owner will transfer the Water CCN to the City at no charge upon the City's approval of the first final plat for all or a portion of the Property.

(d) Pursuant to the Development Agreement and at the request of the District, the Owner will transfer the Wastewater CCN to the City at no charge upon the City's approval of the first final plat for all or a portion of the Property.

(e) The District acknowledges, approves and agrees to the Owner's transfer of the Water CCN and the Wastewater CCN to the City and acknowledges that such transfer is for the benefit of the District and its landowners, taxpayers and customers. The District reaffirms its agreement to reimburse the Owner or the City for all of its costs incurred in connection with securing the issuance and transfer thereof.

(f) The City will be the retail provider of water service to portions of the Property for which it holds the water CCN, and the retail provider of wastewater service to portions of the Property for which it holds the wastewater CCN. Prior to the transfer of the CCNs to the City, the City agrees that the District shall serve as the retail water and wastewater provider within the areas of the Water CCN and Wastewater CCN, subject to the consent and approval of the Owner.

(g) In its role as the retail provider, the City agrees to charge homeowners a maximum of the same base rate the City charges to residents within the City's corporate limits and a maximum of 120% of the rate the City charges to residents within the City's corporate limits based on usage. The City agrees that, as the retail provider, it will provide the Property with adequate water pressure for the full development of the Property (including adequate fire flows) to those areas for which the City holds the CCN and will not terminate water or wastewater service to residents within the Property so described in the event of a shortage or other similar circumstance to any greater extent than is applicable to property within the City limits.

(h) The Property shall be served with adequate fire flows, as required by the Subdivision Regulations, provided that the City provides sufficient water for fire flows within its certificated area. Nothing herein shall be construed to obligate the City to provide fire flows to land outside its certificated area. To the extent Blackland continues to hold the Blackland Water CCN, the District acknowledges that the City may deny the plat for land within the Blackland Water CCN if such land cannot be served with adequate fire flows as required by the Subdivision Regulations.

2.2 Reservation of Capacity. The City agrees to contract for water and wastewater capacities from the NTMWD and to reserve sufficient capacities in the City's water and wastewater system sufficient to serve full development of the Property, except where the CCN for water or wastewater service is held by an entity other than the City or the District. For purposes of this section, sufficient water capacity includes adequate capacity in the Off-Site Water Improvements (as defined in the Development Agreement) or equivalent improvements. The City shall subscribe for utility service from NTMWD and provide capacities in its utility system at times and in amounts as will permit the continued and orderly development of the proposed 1,025 lots upon the Property, except as provided above. The City and the District agree to coordinate their respective utility service planning and capital improvement planning and construction activities in order for the City to meet its obligations established under this section and the Development Agreement.

ARTICLE III LIMITATION ON DISTRICT'S OBLIGATIONS AND TRANSFER OF TERRITORY

3.1 Limitation on Bonded and Contractual Indebtedness.

(a) The District will prepare an engineering report that will identify the total amount of bonds that will be necessary to finance the cost of the water, sanitary sewer, drainage, roads, grading, and landscaping improvements, including engineering design and inspection fees, and related land costs, operation and maintenance costs, District creation and organization costs, and other customary non-construction costs related to the issuance of such bonds, that will serve the Property with 1,025 platted lots. The engineering report shall identify the projects to be reimbursed by District bonds, and only the projects listed in the engineering report shall be authorized reimbursable projects under TCEQ guidelines and other applicable State law.

(b) The engineering report will serve as the basis for the utility bond and road bond propositions (collectively, "Bond Propositions") to be submitted to the duly qualified resident electors of the District at an election duly called for such purpose.

(c) The Bond Propositions, once approved by the voters of the District, shall establish the maximum amount of bonds that the District may issue from time to time for purposes of reimbursing the Owner for the Owner's costs to fully develop the Property with 1,025 platted lots. The District will not issue bonds or incur contractual indebtedness for purposes of reimbursing the Owner for costs or expenses except as identified in the Bond Propositions without the express written consent of the City. Once the District has issued a series of bonds, the District will not refinance that series of bonds in a manner that will extend the term or increase the principal amount of the bonds proposed for refinancing.

(d) The City's consent to the District's Road Projects (as defined in Article V herein) has been granted based on the District's covenants in this section and, but for such covenants, the City would not have consented to the Road Projects.

3.2 No Transfer of Territory. Notwithstanding any provision of state law to the contrary, the District shall not transfer any of the Property to the extraterritorial jurisdiction of another municipality, or annex additional territory without the express written consent of the City.

ARTICLE IV INCORPORATION PETITION; ANNEXATION; DISSOLUTION OF DISTRICT

4.1 Annexation Upon Petition.

(a) If a petition requesting consent to incorporation pursuant to Section 42.041 of the Texas Local Government Code is submitted to the City (i) signed by the requisite number of qualified voters and by owners of more than 50 percent of the Property; or (ii) after occupancy of the 600th single family home within the Property, signed by a minimum of 100 qualified voters and by owners of more than 50 percent of the property covered by the petition; then, in either case, the City shall give immediate written notice of such petition to the Owner and the District, together with a true and correct copy thereof.

(b) Upon receipt of a petition under Section 4.1(a), the City shall have the right to full purpose annex the entire Property to the extent permitted by law, subject to the City's (i) assumption of the District's outstanding obligations, as required by law and including, but not limited to, all outstanding District bonds and obligations pursuant to any reimbursement agreement between the District and any owner of all or a portion of the Property; and (ii) payment of unreimbursed, eligible expenses as required by Section 43.0715(b) of the Texas Local Government Code.

4.2 Dissolution of District. Upon full purpose annexation of the Property, the District shall be dissolved whereupon the City shall assume the obligations of the District as required by law and Section 4.1.

4.3 Legislation. The District agrees to support any legislation sponsored by the City to eliminate or limit incorporation of land in the City's ETJ when the land is subject to a development agreement and lies within the territory of a special water district, which support shall not be unreasonably withheld or conditioned.

ARTICLE V ROAD POWERS

The City consents to and authorizes the District to construct, acquire, improve, maintain, or operate paved roads and enhancements or improvements to those roads in or adjacent to the District generally illustrated on Exhibit C (the "Road Projects") which projects are subject to change as stated on Exhibit C. The District expressly approves and affirms the Road Projects. The City's consent to the District's Road Projects is based on the District's covenants in Section 3.1 and Section 3.2, but for such covenants, the City would not have consented to the Road Projects.

ARTICLE VI CONSENT TO EXECUTION OF DEVELOPMENT AGREEMENT

The District consents to execution of the Development Agreement by the City and the Owner, which agreement amends and restates the provisions of the Settlement Agreement and replaces the Settlement Agreement in its entirety.

ARTICLE VII TERM OF AGREEMENT

This Agreement shall be effective from the Effective Date and shall continue in effect until the earliest of: (i) dissolution of the District; (ii) termination of the Agreement in writing by mutual agreement of the City and the District; or (iii) fifty (50) years after the Effective Date.

ARTICLE VIII BREACH, NOTICE AND REMEDIES

8.1 Notification of Breach. If either Party commits a breach of this Agreement, the non-breaching Party shall give Notice to the breaching Party that describes the breach in reasonable detail.

8.2 Cure of Breach. The breaching Party shall commence curing such breach within thirty (30) calendar days after the time the breaching Party receives such Notice and complete the cure within thirty (30) calendar days from the date of commencement of the cure; however, if the breach is not reasonably susceptible to cure by the breaching Party within such 30-day period, the non-breaching Party shall not bring any action so long as the breaching Party has

commenced to cure the default within such 30-day period and diligently completes the cure within a reasonable time without unreasonable cessation of the work.

8.3 Remedies for Breach. If the breaching Party does not cure such breach within the stated period of time, the non-breaching Party may, in its sole discretion, and without prejudice to any other right under this Agreement, law, or equity, seek an action under the Uniform Declaratory Judgment Act, specific performance, mandamus, injunctive relief, and other remedies described in this Agreement; provided, however, (a) the non-breaching Party shall not be entitled to terminate this Agreement, except the City may terminate this Agreement in the event of a breach by the District of its obligations in **Article III** and failure to cure in accordance with this **Article VIII**, or in the event of the successful incorporation of all or part of the Property by petition of property owners pursuant to Tex. Loc. Gov't Code sec. 41.041, which shall result in a termination of this Agreement only to the extent this Agreement applies to the portion of the Property that is incorporated; (b) each Party specifically waives any right such Party has or in the future may have to terminate this Agreement, except the City may terminate this Agreement in the event of a breach by the District of its obligations in **Article III** and failure to cure in accordance with this **Article VIII**; and (c) it is understood and agreed that no Party will seek or recover actual, consequential or any other type of monetary damages or awards.

ARTICLE IX
ADDITIONAL PROVISIONS

9.1 Notice. Any notices, certifications, approvals, or other communications (a "Notice") required to be given by one Party to another under this Agreement shall be given in writing addressed to the Party to be notified at the address set forth below and shall be deemed given: (a) when the Notice is delivered in person to the person to whose attention the Notice is addressed; (b) when received if the Notice is deposited in the United States Mail, certified or registered mail, return receipt requested, postage prepaid; (c) when the Notice is delivered by Federal Express, UPS, or another nationally recognized courier service with evidence of delivery signed by any person at the delivery address; or (d) five business days after the Notice is sent by FAX (with electronic confirmation by the sending FAX machine) with a confirming copy sent by United States mail within 48 hours after the FAX is sent. If any date or period provided in this Agreement ends on a Saturday, Sunday, or legal holiday, the applicable period for calculating the Notice shall be extended to the first business day following the Saturday, Sunday, or legal holiday. For the purpose of giving any Notice, the addresses of the Parties are set forth below. The Parties may change the information set forth below by sending Notice of such changes to the other Party as provided in this Section 9.1.

To the City:

Attn: City Manager
305 N. Arch St
Royse City, Texas 75189

With a copy to:

City Attorney
305 N. Arch St
Royse City, Texas 75189

To the District:

Parker Creek Municipal Utility District of Rockwall County
Attn: Clay Crawford
Crawford & Jordan, LLP
3100 McKinnon Street, Suite 950
Dallas, Texas 75201

With a copy to:

Parker Creek Estates, L.P.
 Attn: Phillip Huffines
 8200 Douglas Avenue, Suite 300
 Dallas, Texas 75225

With a copy to:

K&L Gates, LLP
 Attn: Melissa Lindelow
 301 Commerce Street, Suite 3000
 Fort Worth, Texas 76102

9.2 No Waiver. Any failure by a Party to insist upon strict performance by the other Party of any provision of this Agreement shall not be deemed a waiver thereof, and the Party shall have the right at any time thereafter to insist upon strict performance of any and all provisions of this Agreement. No provision of this Agreement may be waived except by writing signed by the Party waiving such provision. Any waiver shall be limited to the specific purposes for which it is given. No waiver by any Party hereto of any term or condition of this Agreement shall be deemed or construed to be a waiver of any other term or condition or subsequent waiver of the same term or condition.

9.3 Governing Law and Venue. This Agreement must be construed and enforced in accordance with the laws of the State of Texas, as they apply to contracts performed within the State of Texas and without regard to any choice of law rules or principles to the contrary. The Parties acknowledge that this Agreement is performable in Rockwall County, Texas and hereby submit to the jurisdiction of the courts of Rockwall County, Texas, and agree that any such courts shall be a proper forum for the determination of any dispute arising hereunder.

9.4 Authority to Execute. The City warrants that this Agreement has been approved by the City Council in accordance with all applicable public meeting and public notice requirements (including, but not limited to, notices required by the Texas Open Meetings Act) and that the individual executing this Agreement on behalf of the City has been authorized to do so. The District warrants that this Agreement has been approved by the Board of Directors in accordance with all applicable public meeting and public notice requirements (including, but not limited to, notices required by the Texas Open Meetings Act) and that the individual executing this Agreement on behalf of the Board has been authorized to do so.

9.5 Severability. The provisions of this Agreement are severable and, in the event any word, phrase, clause, sentence, paragraph, section, or other provision of this Agreement, or the application thereof to any person or circumstance, shall ever be held or determined to be invalid, illegal, or unenforceable for any reason, and the extent of such invalidity or unenforceability does not cause substantial deviation from the underlying intent of the Parties as expressed in this Agreement, then such provision shall be deemed severed from this Agreement with respect to such person, entity or circumstance, without invalidating the remainder of this

Agreement or the application of such provision to other persons, entities or circumstances except to the extent that the severed provision(s) is a dependent substantive term the removal of which affects the intent and effect of the remaining provisions.

9.6 Changes in State or Federal Laws. If any state or federal law changes so as to make it impossible for the City or the District to perform its obligations under this Agreement, the Parties will cooperate to amend this Agreement in such a manner that is most consistent with the original intent of this Agreement as legally possible.

9.7 Additional Documents and Acts. The Parties agree that at any time after execution of this Agreement, they will, upon the request of any other Party, execute and/or exchange any other documents necessary to effectuate the terms of this Agreement and perform any further acts or things as the other Party may reasonably request to effectuate the terms of this Agreement.

9.8 Captions. Captions and headings used in this Agreement are for reference purposes only and shall not be deemed a part of this Agreement.

9.9 Assignment. Neither the District nor the City may assign this Agreement without the written consent of the other Party.

9.10 Amendment. This Agreement may be amended only with the written consent of all Parties and with approval of the governing bodies of the City and the District.

9.11 Interpretation. The Parties acknowledge that each Party and, if it so chooses, its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto. As used in this Agreement, the term "including" means "including without limitation" and the term "days" means calendar days, not business days. Wherever required by the context, the singular shall include the plural, and the plural shall include the singular. Each defined term herein may be used in its singular or plural form whether or not so defined.

9.12 Third-Party Beneficiaries. Except as provided in this section, this Agreement is solely for the benefit of the City and the District, and neither the City nor the District intends by any provision of this Agreement to create any rights in any third-party beneficiaries or to confer any benefit upon or enforceable rights under this Agreement or otherwise upon anyone other than the City or the District. Notwithstanding the foregoing, the City and the District intend that the Owner shall be a third-party beneficiary.

9.13 Incorporation of Exhibits by Reference. All exhibits attached to this Agreement are incorporated into this Agreement by reference for the purposes set forth herein, as follows:

<u>Exhibit A</u>	Legal description of the Property
<u>Exhibit B</u>	Illustration of Road Projects

9.14 Defined Terms. Unless otherwise expressly defined herein, capitalized terms shall have the same meaning as set out in the Development Agreement.

9.15 Counterpart Originals. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original.

ATTEST:

Brenda Craft
Brenda Craft
 City Secretary




CITY OF ROYSE CITY

By: *[Signature]*
 Name: Jim Mellody
 Its: Mayor
 Date: April 23, 2009

STATE OF TEXAS §
 §
 COUNTY OF ROCKWALL §

This instrument was acknowledged before me, on the 23 day of April, 2008⁹,
 by Jim Mellody, Mayor of the City of Royse City, Texas on behalf of said city.

[SEAL] 

Stephanie Modisette
 Notary Public, State of Texas
 Printed Name: Stephanie Modisette
 My Commission Expires: Dec. 22, 2009

**PARKER CREEK MUNICIPAL UTILITY
DISTRICT OF ROCKWALL COUNTY**

By: [Signature]
Its: President, Board of Directors

Date: 5/28/09

STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me, on the 28th day of May, 2009,
by William Chapman, President of the Board of Directors of Parker Creek Municipal Utility
District of Rockwall County, on behalf of said entity.

[Signature]
Notary Public, State of Texas

Printed Name: LISA BLOOMFIELD

My Commission Expires: June 27, 2011

[SEAL]

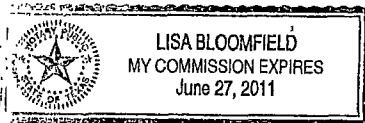


EXHIBIT A

METES AND BOUNDS DESCRIPTION OF THE PROPERTY

BEING a tract of land located in the S.C. WRIGHT SURVEY, ABSTRACT NO. 218, Rockwall County, Texas and being part of a tract of land described in Deed to Parker Creek Estates, L.P., recorded in Volume 2855, Page 252 (Doc. No. 00272567), Deed Records, Rockwall County, Texas and being more particularly described as follows:

BEGINNING at a 1/2 inch iron rod with a yellow plastic cap stamped "DAA" set at the intersection of the Easterly right-of-way line of F.M. 548, a variable width right-of-way, with the approximate centerline of Crenshaw Road, said point being the most Northerly corner of said Parker Creek Estates, L.P. tract;

THENCE South 46 degrees 24 minutes 20 seconds East, along the approximate centerline of said Crenshaw Road, a distance of 5123.44 feet to a 3/8 inch iron rod found at the most Easterly corner of said Parker Creek Estates, L.P. tract, said point being the most Northerly corner of a tract of land described in Deed to John H. Crenshaw, Jr., recorded in Volume 126, Page 887, Deed Records, Rockwall County, Texas;

THENCE South 43 degrees 47 minutes 21 seconds West, along the common line of said Parker Creek Estates, L.P. and John H. Crenshaw, Jr. tracts, a distance of 2697.97 feet to a 1 1/4 inch diameter axle found for corner at the most Southerly corner of said Parker Creek Estates, L.P. tract, said point being North 42 degrees 49 minutes 03 seconds West, a distance of 361.66 feet from the most Westerly corner of said John H. Crenshaw, Jr. tract, said point also being an ell corner of a tract of land described in Deed to Dean M. Gandy, recorded in Volume 688, Page 258, Deed Records, Rockwall County, Texas;

THENCE North 45 degrees 36 minutes 22 seconds West, along the common line of said Parker Creek Estates, L.P. and said Dean M. Gandy tracts, a distance of 4893.37 feet to a 1/2 inch iron rod found for corner in the East right-of-way line of said F.M. 548;

THENCE North 00 degrees 57 minutes 55 seconds West, along said East line, a distance of 169.42 feet to a 1/2 inch iron rod with a yellow plastic cap stamped "DAA" set for corner at the beginning of a curve to the right having a central angle of 44 degrees 32 minutes 00 seconds, a radius of 222.04 feet, and a chord bearing and distance of North 21 degrees 18 minutes 05 seconds East, 168.27 feet;

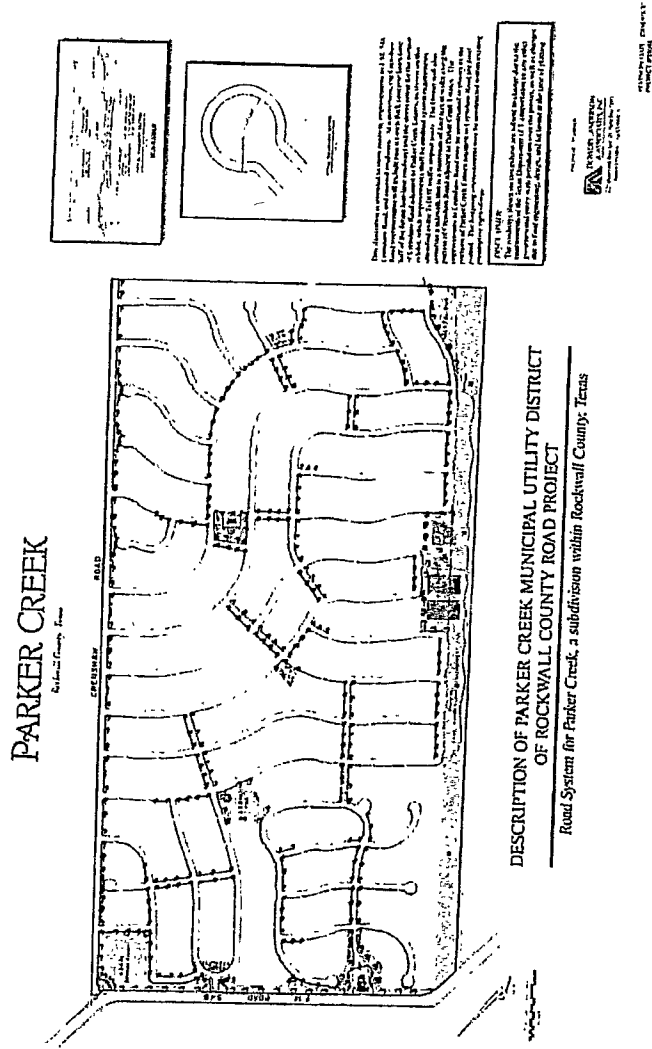
THENCE Westerly, along said curve to the right, an arc distance of 172.58 feet to a 1/2 inch iron rod with a yellow plastic cap stamped "DAA" set for corner;

THENCE North 43 degrees 34 minutes 05 seconds East, along said Easterly right-of-way line, a distance of 2266.78 feet to a 1/2 inch iron rod with a yellow plastic cap stamped "DAA" set for corner;

THENCE North 00 degrees 37 minutes 55 seconds West, a distance of 53.90 feet to a 1/2 inch iron rod with a yellow plastic cap stamped "DAA" set for corner;

THENCE North 43 degrees 33 minutes 48 seconds East, a distance of 47.85 feet to the **POINT OF BEGINNING** and containing 310.202 acres of land, more or less.

EXHIBIT B **ILLUSTRATION OF ROAD PROJECTS**



FIRST ADDENDUM TO PARKER CREEK DEVELOPMENT AGREEMENT

This First Addendum to that certain Development Agreement (the "Development Agreement") approved by the City on November 11, 2008 (the "Addendum") is executed between Parker Creek Estates, L.P. (the "Owner") and the City of Royse City, Texas (the "City") to be effective April 14, 2009 (the "Effective Date"). This Addendum adds covenants relating to maintenance of roadways and the provision of public safety services and sites within the Parker Creek Municipal Utility District of Rockwall County (the "District") and amends the Development Agreement thereby. Except as modified by this Amendment, the terms and conditions of the Development Agreement shall remain in full force and effect. Unless otherwise defined herein, all capitalized terms in this Addendum shall have the meaning given to such terms by the Development Agreement.

ARTICLE I RECITALS

WHEREAS, the City is a home rule municipal corporation of the State of Texas; and

WHEREAS, the Owner is a Texas limited partnership; and

WHEREAS, the Owner and the City are sometimes individually referred to as a "Party" and collectively as the "Parties"; and

WHEREAS, the Owner is the owner of an approximately 310.205-acre tract of land (the "Property") located in Rockwall County (the "County"), which is the subject of the Development Agreement; and

WHEREAS, the Property is encompassed by the District; and

WHEREAS, the City and the District have negotiated an operating agreement approved by the City on November 11, 2008 and the District on January 29, 2008 (the "Operating Agreement"); and

WHEREAS, the County has raised concerns about maintenance of Crenshaw Road abutting the Property and roads internal to the District pending annexation of land within the District to the City, which were not anticipated by the Owner, the District or the City; and

WHEREAS, the County also has raised concerns about delivery of public safety services within the District pending annexation of land within the District to the City, and

WHEREAS, because of the concerns raised by the County, both the Development Agreement and the Operating Agreement with the District remain unexecuted by the City; and

WHEREAS, on November 11, 2008, the City adopted Ordinance No. ⁰⁸⁻¹¹⁻⁶⁹¹ (the "Consent Ordinance") consenting to road projects to be undertaken by the District pursuant to Senate Bill No. 2054 adopted by the Texas Legislature during the 80th regular legislative session, which takes effect upon execution of the Development Agreement by the City; and

WHEREAS, the Parties intend that this Addendum to the Development Agreement have the same term as the Development Agreement; and

WHEREAS, the Parties agree that the County's concerns are well taken and that the Development Agreement should be modified to make additional provisions for road repair, road maintenance and public safety facilities and services; and

WHEREAS, the Parties have the authority to enter into this Addendum pursuant to Section 212.171 et seq of the Texas Local Government Code.

NOW THEREFORE, for and in consideration of the mutual covenants of the Parties set forth in this Addendum, and for other good and valuable consideration the receipt and adequacy of which are acknowledged and agreed by the Parties, the Parties agree as follows:

ARTICLE II

ROAD REPAIR AND IMPROVEMENTS

2.1 **Roadway Maintenance.** Notwithstanding Section 5.5 of the Development Agreement or any other provision of the Development Agreement to the contrary, the Parties agree that, until such time as the Property is annexed into the City's corporate limits, the Owner will cause the District to (a) retain ownership of the internal roads within the District, and to repair and maintain such roads in good repair and to the same standard to which roads within the City's corporate limits are maintained; and (b) either maintain portions of Crenshaw Road adjacent to the Property in good repair and to the same standard to which roads within the City's corporate limits are maintained, or fund the costs of such maintenance. The Owner's Crenshaw Road maintenance obligations under this Article II commence either upon completion of the first phase of Crenshaw Road improvements required by Section 5.2(b) of the Development Agreement or the use of any segment of Crenshaw Road adjacent to the Property that has not been improved to the standards in this section but is used by traffic from the development of the Property, whichever occurs first. The Owner's internal roadway maintenance obligations under this Article II commence upon completion of each internal roadway.

2.2 **Crenshaw Road Repairs Fund.**

(a) In order to provide security for the performance of the repair and maintenance obligations under Section 2.1, the Owner shall deposit, or shall cause the District to deposit, the sum of \$10,000 into an escrow account designated by the City within thirty (30) business days after completion of the first phase of Crenshaw Road.

(b) The escrow account shall be interest-bearing and shall be used by the City solely for maintaining Crenshaw Road in accordance with Section 2.1. The Owner shall replenish, or shall cause the District to replenish, the funds in escrow following the City's draft on the account for road repairs within thirty (30) business days after receipt of notice by the City of the draft. The City shall provide thirty (30) days advance written notice to the Owner that it intends to use funds in the escrow account and, in the event that the request for road repairs emanates from the County, the City shall provide thirty (30) days advance written notice to the Owner of such request and any proceedings scheduled before the Rockwall County Commissioners Court

regarding such request. If the Owner or the District begin repairs within such thirty (30) day period, the City shall not draw on the escrow account.

(c) The Owner shall obtain, or cause the District to obtain, a good and sufficient maintenance bond, in the amount of \$10,000, for the Crenshaw Road improvements required by Section 5.2(b) of the Development Agreement upon completion of such improvements, and deliver a copy of the bond to the City. The Owner shall obtain, or cause the District to obtain, a good and sufficient maintenance bond for all Crenshaw Road repairs made by the Owner or the District and deliver a copy of the bond to the City. All maintenance bonds shall be for a term of two years and shall be provided by a reputable and solvent corporate surety, as determined by the City, in favor of the City. At the Owner's election and subject to the City's consent, a performance bond, letter of credit, or other adequate financial assurances, as solely determined by the City, may be provided in lieu of the maintenance bonds required by this subsection.

(d) If the City and the District agree, in the alternative, the Owner may provide for an escrow account and maintenance bond or other agreed security that is established or procured by the District, provided that the City may draw upon such funds or security as provided in this section.

(e) In the event that the internal roads within the District are not maintained for any reason, including dissolution of the District, lack of funds or insolvency, the Owner and District hereby acknowledge that the internal roads within the District shall remain private, or in the event the District is not dissolved they shall remain the responsibility of the District, and in no instance shall the County be obligated to assume maintenance or repair of said roads.

ARTICLE III **PUBLIC SAFETY PROVISIONS**

3.1. Police Services.

(a) Prior to the date on which the City or a Certified Inspector issues a certificate of substantial completion pursuant to Article III of the Development Agreement (a "C.O.") for the 500th single-family home within the Property, the Owner shall deposit funds with the City, or shall cause the District to deposit funds with the City, in an earmarked account and in an amount sufficient to hire and equip one law enforcement officer. Such deposit is a condition precedent to the issuance of any building permits beyond that for the 500th single family home within the Property.

(b) The Owner shall deposit additional funds with the City, or shall cause the District to deposit additional funds with the City, in an earmarked account and in an amount sufficient to hire and equip one additional officer prior to the date that a Certified Inspector or the City approves a C.O. for the 1000th single-family home within the Property.

(c) The funds required to be deposited with the City under Subsections 3.1(a) and (b) shall be paid annually, and each annual deposit for each officer shall be in an amount equal the

then current average salary of a full-time Royse City police officer, the cost of standard employee benefits provided by Royse City to its law enforcement officers, the cost of one vehicle of the same type used by other Royse City law enforcement officers, and the cost of standard equipment issued to every Royse City law enforcement officer.

(d) As a condition to the Owner's or the District's continuing obligations to fund officers and equipment under this Section 3.1, it is understood that the funds will be used primarily to fund law enforcement services to the Property. Notwithstanding any other provisions, it is expressly acknowledged that the payment of these funds does not obligate the City to provide law enforcement services equivalent to that of a City resident. The law enforcement services may be provided by the City, or the City may use the funds to contract with another law enforcement agency to provide law enforcement services to the Property.

(e) In lieu of the Owner's obligations under this Section 3.1, the City and the District may enter into an interlocal agreement for the District's provision of police services to the Property.

3.2 Dedication of Fire Station Site. The Owner shall cause the District to dedicate a one-half acre site to the City for exclusive use as a fire station. The location within the District shall be determined by the Owner, but must be suitable for a fire station, as approved by the City under criteria applicable to fire stations inside the City's corporate limits, which approval shall not be unreasonably withheld, delayed, or conditioned. The City may consent to a fire station site that is within open space or park areas indicated on the Concept Plan without necessitating an amendment to the Development Agreement or this Addendum, which consent shall not be unreasonably withheld, delayed, or conditioned. The dedication of the site to the District shall be a condition precedent to approval of the final plat containing the 500th single-family residential lot within the Property. The Owner's obligations are limited to causing the District to dedicate land, and nothing herein shall be construed as a requirement for the Owner or District to fund staffing, equipment, or other similar costs.

Article IV ADDITIONAL PROVISIONS

4.1 Recordation. Pursuant to the requirements of Section 212.172(f) of the Texas Local Government Code, this Addendum shall be recorded in the deed records of the County. In addition, all assignments to this Addendum shall be recorded in the deed records of the County. This Addendum, when recorded, shall be binding upon the Parties and their successors and assigns permitted by this Addendum and upon the Property; however, this Addendum shall not be binding upon, and shall not constitute any encumbrance to title as to, any End-Buyer except for land use and development regulations that apply to specific lots. For purposes of this Addendum, the Parties agree: (a) that the term "End-Buyer" means any owner, tenant, user, or occupant other than a developer or builder; (b) that the term "fully developed and improved lot" means any lot, regardless of proposed use, for which a final plat has been approved by the City and recorded in the deed records, for which all infrastructure improvements have been installed and that is eligible for a certificate of substantial completion; and (c) that the term "land use and development regulations that apply to specific lots" means all of the Governing Regulations and the waiver of rights under Section 42.041 of the Texas Local Government Code.

4.2. Recitals. The recitals contained in this Addendum: (a) are true and correct as of the Effective Date; (b) form the basis upon which the Parties negotiated and entered into this Addendum (c) are legislative findings of the City Council, and (d) reflect the final intent of the Parties with regard to the subject matter of this Addendum. In the event it becomes necessary to interpret any provision of this Addendum, the intent of the Parties, as evidenced by the recitals, shall be taken into consideration and, to the maximum extent possible, given full effect. The Parties have relied upon the recitals as part of the consideration for entering into this Addendum and, but for the intent of the Parties reflected by the recitals, would not have entered into this Addendum.

4.3 No Third Party Beneficiaries. Except as otherwise provided in this section, this Addendum only inures to the benefit of, and may only be enforced by, the Parties. If the District is not an Assignee, the District shall be considered a third-party beneficiary of this Addendum.

4.5 Affirmation of Development Agreement. Except as may be modified expressly or by necessary implication by this Addendum, the Parties hereby affirm the covenants contained in the Development Agreement in their entirety.

4.6 Expiration of Addendum. If the City and the County fail to enter into a written agreement within 60 days of the Effective Date of this Addendum that acknowledges the City's exclusive platting jurisdiction and authority over the development of the Property pursuant to the Agreement and is in a form approved by the City, such approval not to be unreasonably withheld, delayed, or conditioned, this Addendum shall automatically expire and be of no further force or effect.

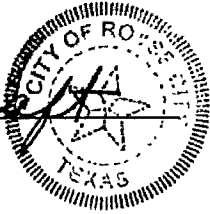
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Executed by the Owner and the City to be effective on the Effective Date.

ATTEST:

CITY OF ROYSE CITY

Name: Brenda Craft
Title: City Secretary



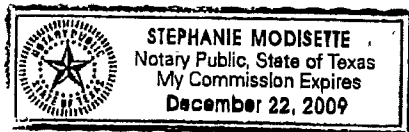
By: [Signature]
Name: Jim Melody
Title: Mayor
Date: APRIL 23, 2009

APPROVED AS TO FORM AND
LEGALITY:

Name: [Signature]
City Attorney
STATE OF TEXAS §

COUNTY OF ROCKWALL §

This instrument was acknowledged before me on April 23, 2009 by Jim Melody, Mayor of the City of Royse City, Texas on behalf of said city.



Stephanie Modisette
Notary Public, State of Texas

OWNER:

PARKER CREEK ESTATES, L.P.,
a Texas limited partnership

By: Bellaire Oaks, Inc.,
a Texas corporation
Its: General Partner

By: Phillip W. Huffines

Name Printed: PHILLIP HUFFINES

Title: AGENT - 5-4-09

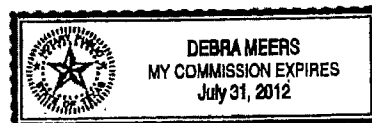
STATE OF TEXAS

COUNTY OF Dallas

§
§
§

This instrument was acknowledged before me on May 4, 2009 by Phillip Huffines Agent of Bellaire Oaks, Inc., a Texas corporation, in its capacity as General Partner of Parker Creek Estates, L.P., a Texas limited partnership, on behalf of said corporation, on behalf of said limited partnership.

Debra Meers
Notary Public, State of Texas



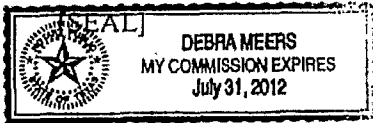
PARKER CREEK MUNICIPAL UTILITY
DISTRICT OF ROCKWALL COUNTY

By: [Signature]
Its: President, Board of Directors
V.P.

Date: 5/29/09

STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me, on the 28 day of May, 2008,
by Pike Champman, Jr. President of the Board of Directors of Parker Creek Municipal Utility
District of Rockwall County, on behalf of said entity.



[Signature: Debra Meers]
Notary Public, State of Texas
Printed Name: Debra Meers
My Commission Expires: 7-31-2012

After recording, return to:

Parker Creek Estates, LP.
8200 Douglas Ave. Suite 300
Dallas, TX 75225



City Of Royse City, Texas

Annual Financial Report

Fiscal Year Ended September 30, 2016

CITY OF ROYSE CITY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

**Carl Alsabrook
City Manager**

**Shannon Raymond
Director of Finance**

CITY OF ROYSE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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CITY OF ROYSE CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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Financial Section

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RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
 2401 Garden Park Court, Suite B
 Arlington, Texas 76013

INDEPENDENT AUDITORS' REPORT

To the City Council
 City of Royse City, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Royse City, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Royse City, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability, and schedule of City pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a

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

Other Information

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

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

Brillidge, Cloer & Company, PC

March 21, 2017

Management's Discussion and Analysis

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CITY OF ROYSE CITY, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2016

As management of the City of Royse City ("City"), we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred resources outflows of the City exceeded its liabilities and deferred resources inflows at the close of the fiscal year by \$22,355,347 (net position). Of this amount, \$4,219,513 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. A total of \$12,117,918, or 54% of total net position, is invested in capital assets which does not directly generate revenue and is not available to generate liquid capital. Net position restricted for specific purposes totals \$6,017,916 or 27% of total net position.
- The City's total net position increased by \$8,583,435 largely due to the net investment in capital assets related to developer contributions. Impact fees associated with the growth continue to positively affect net position.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$5,452,165, an increase of \$2,597,465 or 91%, in comparison with the prior year. The increase in combined ending fund balances is primarily attributable to bond proceeds (\$1.96 million) and growth in general revenues (property and sales taxes, franchise fees). Approximately 35% of total fund balance, or \$1,923,068, is available for spending at the City's discretion (unassigned fund balance).
- At the close of the current fiscal year, the unassigned fund balance for the General Fund was \$1,923,068 or 29% of total General Fund expenditures. The increase in the total General Fund balance is largely due to increased revenues in growth related categories such as property tax, sales tax, permit collections and franchise fees combined with conservative spending across departments.
- The City's total long-term debt increased by \$1,325,183, or 6% during the current fiscal year.

Overview of Financial Statements

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

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Basic Financial Statements

The first two statements (pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 22-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** (beginning on page 29). The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (page 53) is provided to show budgetary information for the General Fund, and to provide details about the funding progress and contribution for the pension plan. **Supplemental Information** (pages 59-84) is also included to provide combining non-major fund financial statements and budgetary comparisons.

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements are on pages 19-21 of this report.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage funds for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Royse City, like other state and local governments, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City adopts an annual budget for its General Fund and Debt Service Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The Budgetary Comparison Schedule for the General Fund uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) original budget; 2) the final budget as amended by the Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 22-25 of this report. The General Fund Budgetary Comparison Schedule can be found on page 55.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

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

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

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 29 of this report.

Required Supplemental Information – In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the progress in funding its obligation to provide pension benefits to its employees. This information begins on page 56 of this report.

The combining statements and budgetary comparison schedules for the nonmajor governmental funds can be found on pages 59-84 of this report.

CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's combined net position was \$22,355,347 as of September 30, 2016. This analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$6,403,070	\$3,692,320	\$6,504,264	\$4,728,626	\$12,907,334	\$8,420,946
Capital assets	12,886,408	10,101,042	20,694,423	17,315,863	33,580,831	27,416,905
Total assets	19,289,478	13,793,362	27,198,687	22,044,489	46,488,165	35,837,851
Deferred resources outflows	665,650	320,598	123,577	41,312	789,227	361,910
Current liabilities	717,980	594,547	570,267	564,082	1,288,247	1,158,629
Long-term liabilities	10,456,348	8,377,721	13,236,513	13,368,165	23,692,861	21,745,886
Total liabilities	11,174,328	8,972,268	13,806,780	13,932,247	24,981,108	22,904,515
Deferred resources inflows	10,033	20,136	-	-	10,033	20,136
Net Position:						
Net investment in capital assets	3,810,266	2,556,883	8,307,652	4,322,435	12,117,918	6,879,318
Restricted	3,233,268	1,565,583	2,784,648	1,622,952	6,017,916	3,188,535
Unrestricted	1,727,233	999,090	2,492,280	2,704,969	4,219,513	3,704,059
Total Net Position	\$8,770,767	\$5,121,556	\$13,584,580	\$8,650,356	\$22,355,347	\$13,771,912

Fifty-one percent (54%) of the City's net position 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net position (27%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$4,219,513 or 19% may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016

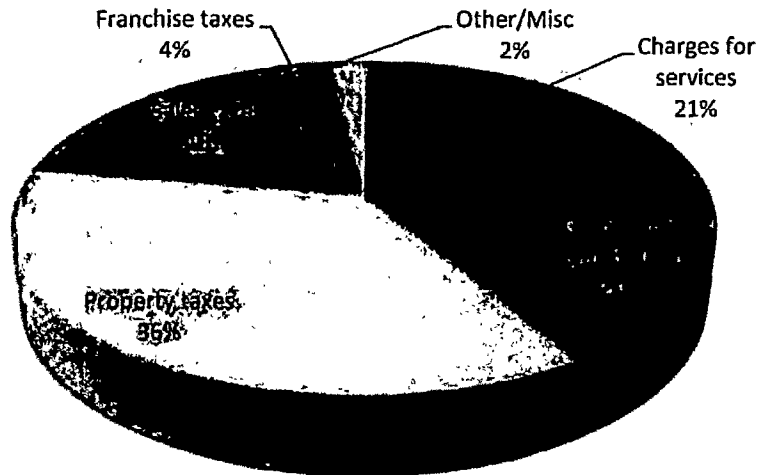
Governmental Activities

Governmental activities increased the City's net position by \$3,649,211. Key elements of this increase are as follows in Table 2.

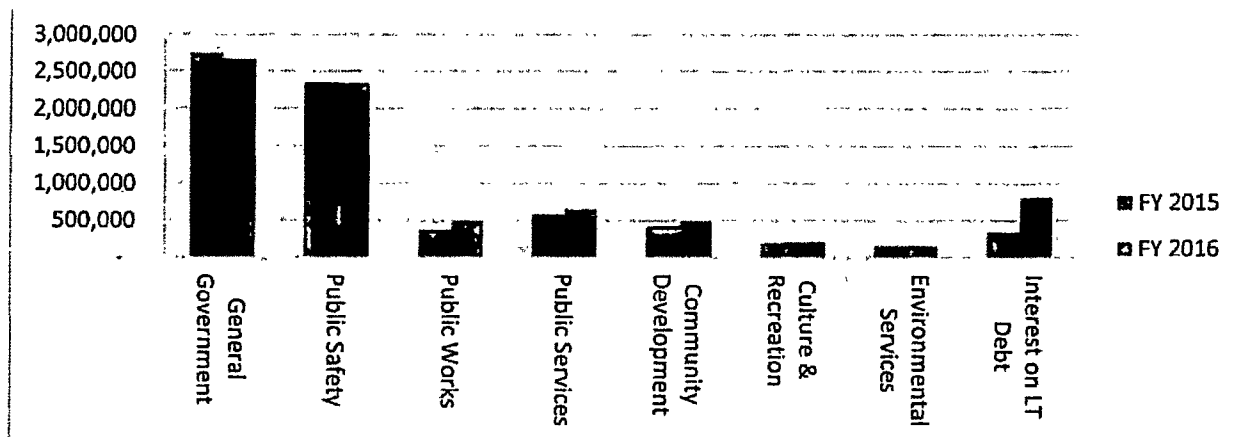
	Table 2 Change in Net Position					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for services	2,254,454	2,249,674	5,303,062	5,276,591	7,557,516	7,526,265
Operating grants and contributions	53,516	73,889	-	-	53,516	73,889
Capital grants and contributions	2,168,722	1,595	4,417,902	-	6,586,624	1,595
General Revenues:						
Property taxes	3,910,721	3,480,297	-	-	3,910,721	3,480,297
Sales taxes	1,746,482	1,503,191	-	-	1,746,482	1,503,191
Franchise taxes	481,039	429,083	-	-	481,039	429,083
Hotel/Motel taxes	103,989	80,254	-	-	103,989	80,254
Beverage taxes	4,372	3,879	-	-	4,372	3,879
Investment income	37,921	9,374	14,896	2,683	52,817	12,057
Gain on sale of capital asset	-	-	-	10,600	-	10,600
Miscellaneous	55,200	219,226	81,738	93,937	136,938	313,163
Total Revenues	10,816,416	8,050,462	9,817,598	5,383,811	20,634,014	13,434,273
Expenses:						
Program Expenses						
General government	2,679,765	2,749,735			2,679,765	2,749,735
Public safety	2,352,566	2,356,569			2,352,566	2,356,569
Public works	500,534	379,893			500,534	379,893
Public services	662,653	588,013			662,653	588,013
Community development	484,683	427,320			484,683	427,320
Culture and recreation	219,380	206,503	-	-	219,380	206,503
Environmental services	164,078	167,586	-	-	164,078	167,586
Interest on long-term debt	823,546	353,810	-	-	823,546	353,810
Water and sewer	-	-	4,163,374	4,011,101	4,163,374	4,011,101
Total Expenses	7,887,205	7,229,429	4,163,374	4,011,101	12,050,579	11,240,530
Change in net position before transfers	2,929,211	821,033	5,654,224	1,372,710	8,583,435	2,193,743
Transfers	720,000	236,020	(720,000)	(236,020)	-	-
Total change in net position	3,649,211	1,057,053	4,934,224	1,136,690	8,583,435	2,193,743
Net position - October 1	5,121,556	4,630,137	8,650,356	7,211,003	13,771,912	11,841,140
Prior Period Adjustments	-	(565,634)	-	302,663	-	(262,971)
Net position - September 30	8,770,767	5,121,556	13,584,580	8,650,356	22,355,347	13,771,912

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Revenues by Source – Governmental Activities



Program Expenses – Governmental Activities



Program revenues were \$4.47 million, compared to \$2.3 million in fiscal year 2015. The breakdown of the increase is as follows:

- Overall, charges for services were relatively flat, increasing \$4,780.
- Operating grants and contributions decreased \$20,373 and capital grants and contributions increased \$2.16 million due to developer contributions
- General revenues increased from \$5,961,324 in fiscal year 2015 to \$7,059,724 in fiscal year 2016 due to increased sales tax receipts and property tax shift from debt to operating.

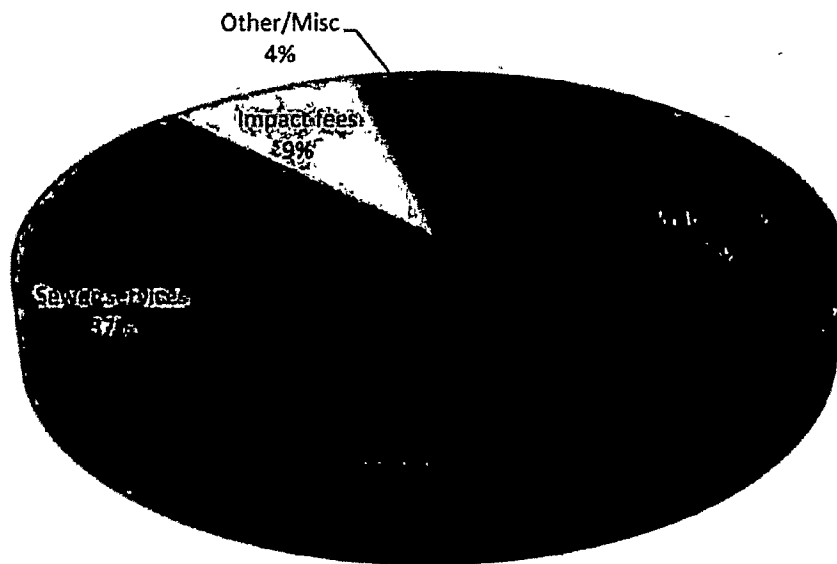
Overall, governmental activities expenses were \$7.89 million, an increase of \$657,776 which is attributable primarily to street repairs and interest paid on debt service.

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

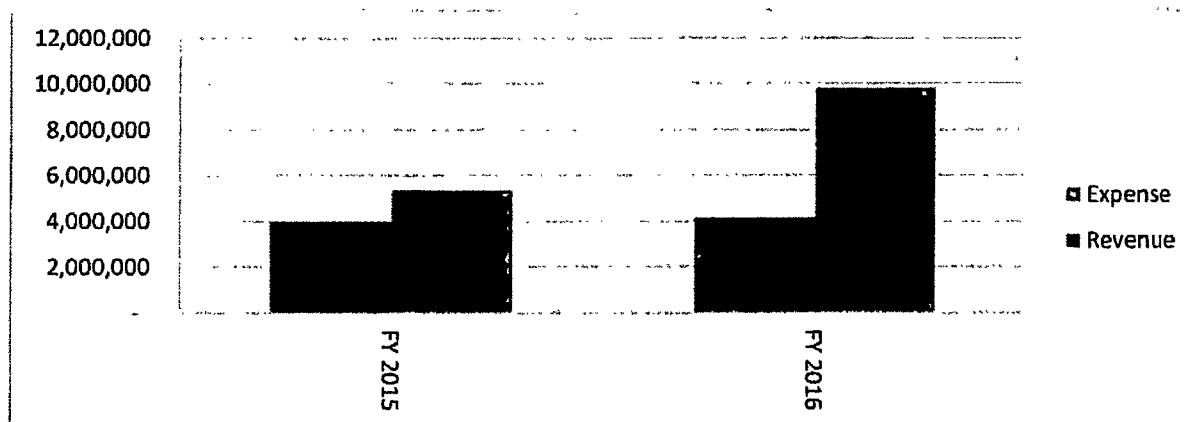
Business-Type Activities

Revenues of the City's business-type activities were \$9.82 million for the fiscal year ended September 30, 2016. Revenues increased approximately \$4.4 million or 82% as compared to the prior fiscal year. Expenses for the City's business-type increased \$152,373. The increase in net position is a result of the completion & dedication of developer installed infrastructure.

Revenues by Source – Business-Type Activities



Expenditures – Business-Type Activities



**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Financial Analysis of the City's Funds

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

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted fund balances (unassigned, assigned and committed) may serve as a useful measure of a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,452,165. Within this total, \$3,480,266 is restricted for specific legal requirements, such as debt covenants, and \$48,831 has been committed and assigned to specific types of expenditures. Unassigned fund balance is \$1,923,068 and can be used for any lawful purpose.

The General Fund is the chief operating fund of the City. The fund balance of the City's general fund increased by \$907,570 during the current fiscal year. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total general fund expenditures. Unassigned fund balance represents 29% of total general fund expenditures.

The debt service fund has a total fund balance of \$878,728, all of which is restricted for the payment of debt service.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary fund at the end of the fiscal year were \$2,492,280, compared to \$2,704,968 in the prior year.

CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2016, the City had \$33.6 million (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, police and fire equipment, park facilities, roads and water and sewer lines (Table 3). This amount represents a net increase (including additions and deletions) of \$6.1 million over the prior fiscal year.

Major capital asset transactions during the year include road and waterline construction, developer contributions, parks and public works equipment.

Table 3
Capital Assets at Year-End
 (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	925,169	925,170	1,340,132	1,340,132	2,265,301	2,265,302
Construction in progress	673,282	-	250,897	9,769	924,179	9,769
Buildings and improvements	10,584,305	8,619,385	3,592	4,658	10,587,897	8,624,043
Machinery and equipment	703,652	556,487	67,625	78,328	771,277	634,815
Infrastructure	-	-	19,032,177	15,882,976	19,032,177	15,882,976
Total	12,886,408	10,101,042	20,694,423	17,315,863	33,580,831	27,416,905

More detailed information about the City's capital asset activity is present in Note III.D. to the financial statements.

Long-Term Debt – At year end, the City had \$22 million in long-term debt outstanding, a \$1.3 million, or 6.4% increase in comparison with the prior year – as shown in Table 4.

Table 4
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$0	\$7,000	\$4,385,000	\$4,810,000	\$4,385,000	\$4,817,000
Certificates of obligation	8,940,000	7,500,000	8,520,000	8,380,000	17,460,000	15,880,000
Unamortized premium (discount)	20,426	(64,525)	33,004	2,019	53,429	(62,506)
Capital lease	115,717	42,672	50,927	62,724	166,644	105,396
Total	\$9,076,142	\$7,485,147	\$12,988,931	\$13,254,743	\$22,065,073	\$20,739,890

During fiscal year 2016, the City issued \$2.49 million of certificates of obligation to provide funding for a downtown street reconstruction project, water line replacement, participation on a TxDOT overpass project and public works equipment.

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

**CITY OF ROYSE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Economic Factors and Next Year's Budgets and Rates

The completion of a major interchange along Interstate 30 and the opening of Wal-Mart has spurred retail development in the adjacent areas. Whataburger, Dairy Queen, O'Reilly's Auto Parts and Murphy Oil are among several businesses that opened late 2016/early fiscal 2017. Tractor Supply Company will be a new addition and a number of lots surrounding their expansion are anticipated to develop in the coming year. Another of the City's Interstate bridge reconstruction projects was approved for TxDOT funding and will begin Spring 2017. Buc-ee's will build a 50,000 square foot travel center on the southwest corner of this intersection. An exciting addition to the area and anchor to an anticipated entertainment district, an independent minor-league baseball program announced the construction of a 2,000 stadium to house a Royse City based team on property at this same intersection.

Residential development remains strong; with Union Square (a 500-lot subdivision) opening its first phases in 2017 and a 1,025 lot subdivision (Waterscape) beginning construction late 2016, and while in the ETJ will pay for police and fire services per its development agreement. A 220-unit apartment complex will be completed during fiscal 2017 and a rural, large lot development broke ground which will extend water service to the eastern city limits opening a large area for future growth as well.

Royse City has enjoyed a thriving downtown for several years; where the small town community and relationships are fostered and maintained – a true illustration of "A Friendly Touch of Texas." Royse City is a designated Texas Main Street City and is recognized as a nationally accredited program. A number of small businesses and restaurant make Main Street home. New additions in fiscal 2017 will include two boutiques and a brewery.

The largest single revenue source in the fiscal year 2017 General Fund Budget is property taxes, which account for 39.5% of total revenues. Assessed property values in Royse City increased \$91 million from the prior year, including \$42 million in new property entering the tax roll for the first time. Council maintained the \$0.6771 per \$100 valuation tax rate for fiscal year 2017. Sales tax revenue remains the City's second largest revenue source, making up 23% of General Fund Revenues. A modest 5% increase in sales tax revenue is projected as the retail base normalizes. A Police Investigator and Planner were added in the FY17 budget as well as additional funding for street repairs. The comprehensive plan update will conclude in fiscal year 2017 providing guidance for the future growth of Royse City.

Water/Sewer Fund expenditures are projected to increase 7% in fiscal year 2017 primarily due to continued increases in water purchase and wastewater treatment costs from our provider North Texas Municipal Water District (NTMWD). This increase in the water rate is to pay for debt service associated with capital improvements of aging infrastructure related to NTMWD's water treatment operations, as well as establishing future water supplies to meet the growing regional demand. Additionally, NTMWD will begin the expansion of a shared wastewater treatment facility in Royse City. To address the increases from NTMWD and capital needs of our system, water and wastewater rates will be increased accordingly.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or requests for additional financial information should be directed to the Finance Director, P.O. Box 638, Royse City, Texas 75189.

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Basic Financial Statements

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CITY OF ROYSE CITY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
<i>Cash and cash equivalents</i>	\$ 5,652,672	\$ 1,847,349	\$ 7,500,021	\$ 1,612,520
<i>Receivables (net of allowances for uncollectibles)</i>	523,207	1,158,071	1,681,278	--
<i>Internal balances</i>	(115,250)	115,250	--	--
<i>Due from other governments</i>	342,441	--	342,441	114,147
<i>Due from component unit</i>	--	51,230	51,230	--
Restricted assets:				
<i>Cash and cash equivalents</i>	--	3,332,364	3,332,364	--
<i>Capital assets (net of accumulated depreciation)</i>				
<i>Land</i>	925,169	1,340,132	2,265,301	--
<i>Buildings and system</i>	10,584,305	3,592	10,587,897	--
<i>Machinery and equipment</i>	703,652	67,625	771,277	--
<i>Infrastructure</i>	--	19,032,177	19,032,177	--
<i>Construction in progress</i>	673,282	250,897	924,179	--
Total Assets	19,289,478	27,198,687	46,488,165	1,726,667
DEFERRED OUTFLOWS OF RESOURCES				
<i>Deferred pension plan expense</i>	665,650	123,577	789,227	38,435
Total Deferred Outflows of Resources	665,650	123,577	789,227	38,435
LIABILITIES				
<i>Accounts payable and accrued liabilities</i>	562,933	103,110	666,043	7,112
<i>Accrued interest payable</i>	56,362	69,096	125,458	--
<i>Due to other governments</i>	98,685	--	98,685	--
<i>Due to primary government</i>	--	--	--	51,230
<i>Customer deposits</i>	--	398,061	398,061	--
<i>Liabilities payable from restricted assets:</i>				
Noncurrent liabilities:				
<i>Due within one year</i>	720,488	935,147	1,655,635	--
<i>Due in more than one year</i>	9,735,860	12,301,366	22,037,226	73,419
Total Liabilities	11,174,328	13,806,780	24,981,108	131,761
DEFERRED INFLOWS OF RESOURCES				
<i>Unavailable revenue-other</i>	10,033	--	10,033	--
Total deferred inflows of resources	10,033	--	10,033	--
NET POSITION:				
<i>Net Investment in Capital Assets</i>	3,810,266	8,307,652	12,117,918	--
Restricted For:				
<i>Debt Service</i>	950,375	--	950,375	--
<i>Capital Projects</i>	1,190,006	680,208	1,870,214	--
<i>Impact fees</i>	1,092,887	2,104,440	3,197,327	--
<i>Unrestricted</i>	1,727,233	2,492,280	4,219,513	1,633,341
Total Net Position	\$ 8,770,767	\$ 13,584,580	\$ 22,355,347	\$ 1,633,341

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 2,679,765	\$ 877,258	\$ 29,733	\$ --
Public safety	2,352,566	457,474	10,854	--
Public works	500,534	355,869	8,695	2,168,722
Public services	662,653	2,269	--	--
Community development	484,683	534,526	--	--
Culture and recreation	219,380	27,058	585	--
Environmental services	164,078	--	3,649	--
Interest	823,546	--	--	--
Total governmental activities	<u>7,887,205</u>	<u>2,254,454</u>	<u>53,516</u>	<u>2,168,722</u>
Business-type Activities:				
Water and Sewer	4,163,374	5,303,062	--	4,417,902
Total Business-type Activities	<u>4,163,374</u>	<u>5,303,062</u>	<u>--</u>	<u>4,417,902</u>
Total Primary Government	<u>\$ 12,050,579</u>	<u>\$ 7,557,516</u>	<u>\$ 53,516</u>	<u>\$ 6,586,624</u>
COMPONENT UNIT:				
Royse City Community Development Corporation	\$ 227,286	\$ --	\$ --	\$ --

General Revenues:
Ad valorem taxes, penalty and interest
Sales Taxes
Franchise Taxes
Hotel Motel Taxes
Alcoholic Beverage Taxes
Miscellaneous
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning
Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (1,772,774)		\$ (1,772,774)	
(1,884,238)		(1,884,238)	
2,032,752		2,032,752	
(660,384)		(660,384)	
49,843		49,843	
(191,737)		(191,737)	
(160,429)		(160,429)	
(823,546)		(823,546)	
<u>(3,410,513)</u>		<u>(3,410,513)</u>	
--	\$ 5,557,590	5,557,590	
--	5,557,590	5,557,590	
<u>(3,410,513)</u>	<u>5,557,590</u>	<u>2,147,077</u>	
			\$ (227,286)
3,910,721	--	3,910,721	--
1,746,482	--	1,746,482	618,309
481,039	--	481,039	--
103,989	--	103,989	--
4,372	--	4,372	--
55,200	81,738	136,938	1,631
37,921	14,896	52,817	3,598
720,000	(720,000)	--	--
<u>7,059,724</u>	<u>(623,366)</u>	<u>6,436,358</u>	<u>623,538</u>
3,649,211	4,934,224	8,583,435	396,252
5,121,556	8,650,356	13,771,912	1,237,089
<u>\$ 8,770,767</u>	<u>\$ 13,584,580</u>	<u>\$ 22,355,347</u>	<u>\$ 1,633,341</u>

CITY OF ROYSE CITY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,987,038	\$ 896,237	\$ 2,769,398	\$ 5,652,673
Receivables (net of allowances for uncollectibles):				
Taxes - delinquent	88,812	76,125	--	164,937
Fines	193,364	--	--	193,364
Other receivables	134,632	--	30,274	164,906
Due from other funds	21,987	--	--	21,987
Due from other governments	342,441	--	--	342,441
Total Assets	<u>2,768,274</u>	<u>972,362</u>	<u>2,799,672</u>	<u>6,540,308</u>
LIABILITIES				
Accounts payable	\$ 383,302	\$ --	\$ 32,932	\$ 416,234
Accrued liabilities	11,628	--	--	11,628
Other liabilities	133,950	--	1,121	135,071
Due to other funds	--	21,987	115,250	137,237
Due to other governments	98,685	--	--	98,685
Total Liabilities	<u>627,565</u>	<u>21,987</u>	<u>149,303</u>	<u>798,855</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	82,590	71,647	--	154,237
Unavailable revenue-fines	125,018	--	--	125,018
Unavailable revenue-other	10,033	--	--	10,033
Total deferred inflows of resources	<u>217,641</u>	<u>71,647</u>	<u>--</u>	<u>289,288</u>
Fund balances:				
Restricted	--	878,728	2,601,538	3,480,266
Assigned	--	--	48,831	48,831
Unassigned	1,923,068	--	--	1,923,068
Total fund balances	<u>1,923,068</u>	<u>878,728</u>	<u>2,650,369</u>	<u>5,452,165</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,768,274</u>	<u>\$ 972,362</u>	<u>\$ 2,799,672</u>	<u>\$ 6,540,308</u>

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet	\$ 5,452,165
--	--------------

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not reported in the funds.	12,886,408
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	154,237
Payables for bond principal which are not due in the current period are not reported in the funds.	(8,960,425)
Payables for capital leases which are not due in the current period are not reported in the funds.	(115,717)
Payables for bond interest which are not due in the current period are not reported in the funds.	(56,362)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(108,695)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	125,018
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(1,271,512)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>665,650</u>

Net position of governmental activities - Statement of Net Position	<u>\$ 8,770,767</u>
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The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Ad valorem taxes, penalty and interest	\$ 2,486,233	\$ 1,422,309	\$ --	\$ 3,908,542
Sales	1,746,482	--	--	1,746,482
Franchise	481,039	--	--	481,039
Hotel/motel tax	--	--	103,989	103,989
Beverage	5,292	--	--	5,292
Fines and fees	234,848	--	15,489	250,337
Licenses and permits	354,498	--	--	354,498
Charges for services	1,172,582	--	1,059	1,173,641
Impact fees	--	--	342,744	342,744
Intergovernmental	115,821	--	--	115,821
Donations	--	--	53,738	53,738
Interest income	21,399	6,789	9,734	37,922
Miscellaneous	58,946	--	--	58,946
Total revenues	6,677,140	1,429,098	526,753	8,632,991
Expenditures:				
Current:				
General government	2,503,525	--	84,539	2,588,064
Public safety	2,215,890	--	--	2,215,890
Public works	315,793	--	8,535	324,328
Public services	610,348	--	--	610,348
Community development	496,128	--	--	496,128
Culture and recreation	201,643	--	353	201,996
Environmental services	162,807	--	--	162,807
Total current	6,506,134	--	93,427	6,599,561
Capital outlay:				
General government	--	--	65,423	65,423
Public safety	113,312	--	--	113,312
Public works	--	--	778,505	778,505
Public services	6,435	--	--	6,435
Community development	20,443	--	--	20,443
Environmental services	20,443	--	7,838	28,281
Total capital outlay	160,633	--	851,766	1,012,399
Debt service:				
Principal	--	716,000	--	716,000
Interest	--	548,399	--	548,399
Bond issuance cost	--	--	41,147	41,147
Total debt service	--	1,264,399	41,147	1,305,546
Total expenditures	6,666,767	1,264,399	986,340	8,917,506
Excess (deficiency) of revenues over (under) expenditure	10,373	164,699	(459,587)	(284,515)
Other financing sources (uses):				
Transfers in	743,000	--	--	743,000
Transfers out	--	--	(23,000)	(23,000)
Issuance of long-term debt	--	3,779	1,911,221	1,915,000
Premium on bonds issued	--	--	92,783	92,783
Capital leases	154,197	--	--	154,197
Total other financing sources (uses)	897,197	3,779	1,981,004	2,881,980
Net change in fund balances	907,570	168,478	1,521,417	2,597,465
Fund balances, October 1	1,015,498	710,250	1,128,952	2,854,700
Fund balances, September 30	\$ <u>1,923,068</u>	\$ <u>878,728</u>	\$ <u>2,650,369</u>	\$ <u>5,452,165</u>

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - total governmental funds	\$ 2,597,465
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Amounts reported for governmental activities in the Statement of Activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	1,012,397
The depreciation of capital assets used in governmental activities is not reported in the funds.	(395,753)
Donations of capital assets increase net position in the SOA but not in the funds.	2,168,722
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	2,180
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	482,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	81,152
(Increase) decrease in accrued interest from beginning of period to end of period.	(6,916)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(1,030)
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	12,525
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,915,000)
Bond premiums are reported in the funds but not in the SOA.	(92,783)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(154,197)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(141,550)

Change in net position of governmental activities - Statement of Activities	<u>\$ 3,649,212</u>
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The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
SEPTEMBER 30, 2016

	Enterprise Fund Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,847,349
Receivables (net of allowances for uncollectibles)	1,158,071
Due from other funds	115,250
Due from component unit	51,230
Restricted Cash and Cash Equivalents	3,332,364
Total Current Assets	6,504,264
Noncurrent Assets:	
Land	1,340,132
Buildings	39,551
Machinery and Equipment	537,136
Infrastructure	23,740,262
Construction in Progress	250,897
Less Accumulated Depreciation	(5,213,555)
Total Noncurrent Assets	20,694,423
Total Assets	27,198,687
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred pension plan expense	123,577
Total Outflows of Resources	123,577
LIABILITIES	
Current Liabilities:	
Accounts payable	23,990
Other liabilities	10,024
Compensated absences payable - current	1,153
Accrued interest payable	69,096
Certificates of obligation - current	262,500
Revenue bonds payable - current	217,252
Capital leases payable	12,082
Liabilities payable from restricted assets:	
Customer Deposits	398,061
Total Current Liabilities	994,158
Noncurrent Liabilities:	
General Obligation Bonds Payable	4,473,643
Certificates of obligation	4,904,339
Revenue Bonds Payable	3,080,269
Compensated absences payable - noncurrent	10,375
Capital Leases Payable	38,845
Net Pension Obligation	236,055
Total Noncurrent Liabilities	12,743,526
Total Liabilities	13,737,684
NET POSITION	
Net Investment in Capital Assets	8,307,652
Restricted for Capital Projects	680,208
Restricted for impact fee use	2,104,440
Unrestricted	2,492,280
Total Net Position	\$ 13,584,580

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Charges for services - water	\$ 2,953,551
Charges for services - sewer	2,205,473
Water and wastewater impact fees	516,400
Miscellaneous	225,776
Total Operating Revenues	<u>5,901,200</u>
OPERATING EXPENSES:	
Personal services	521,291
Materials and supplies	71,249
Repairs and maintenance	266,846
Water purchases	1,047,417
Contractual services	208,802
Interceptor expenses	1,164,079
Depreciation	559,071
Total Operating Expenses	<u>3,838,755</u>
Operating Income	<u>2,062,445</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	14,896
Interest expense	(312,189)
Bond issuance costs	(12,430)
Total Non-operating Revenues (Expenses)	<u>(309,723)</u>
Income before Transfers	1,752,722
Capital contributions	3,901,502
Transfers out	<u>(720,000)</u>
Change in Net Position	4,934,224
Total Net Position - Beginning	8,650,356
Total Net Position - Ending	<u>\$ 13,584,580</u>

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 5,535,649
<i>Cash Payments to Employees for Services</i>	(465,106)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(2,758,393)
Net Cash Provided (Used) by Operating Activities	<u>2,312,150</u>
Cash Flows from Non-capital Financing Activities:	
<i>Advances to other funds</i>	(115,250)
<i>Advances to component unit</i>	(51,230)
<i>Transfers From (To) Other Funds</i>	(720,000)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(886,480)</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Proceeds from bonds</i>	575,000
<i>Principal and Interest Paid</i>	(1,264,006)
<i>Acquisition or Construction of Capital Assets</i>	(36,129)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(725,135)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	14,896
Net Cash Provided (Used) for Investing Activities	<u>14,896</u>
Net Increase (Decrease) in Cash and Cash Equivalents	715,431
Cash and Cash Equivalents at Beginning of Year	4,464,282
Cash and Cash Equivalents at End of Year	<u>\$ 5,179,713</u>
Reported on Statement of Net Position	
Unrestricted cash	\$ 1,847,349
Restricted cash	3,332,364
	<u>\$ 5,179,713</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 2,062,445
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	559,071
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(396,926)
<i>Increase (Decrease) in Accounts Payable</i>	(92,044)
<i>Increase (Decrease) in Other Payables</i>	(3,678)
<i>Increase (Decrease) in Accrued Expenses</i>	16,995
<i>Increase (Decrease) in Customer Deposits</i>	31,375
<i>Increase (Decrease) in Pension Liability</i>	134,912
Total Adjustments	<u>249,705</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,312,150</u>
Schedule of non-cash capital and related financing activities:	
<i>Contribution of capital assets</i>	<u>\$ 3,901,502</u>

The accompanying notes are an integral part of this statement.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Royse City, Texas, was settled in 1891 and operates under the Council-Manager form of government as adopted by a home rule charter approved May 15, 2004. The City provides a full range of municipal services including public safety (police and fire), municipal court, parks and recreation, health and social services, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The accounting policies of the City of Royse City, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the City's basic financial statements.

The City of Royse City is a home rule municipality governed by an elected mayor and six member City Council who appoint a City Manager. The City's (primary government) financial statements include its component units. The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Discretely Presented Component Units

The Royse City Community Development Corporation ("CDC") is a discretely presented component unit of the City. The CDC is governed by a board of seven members, all of whom are appointed by the City Council of the City of Royse City and whom can be removed from office by the City Council at its will. CDC has potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The CDC incorporated in the state of Texas in 1998. The nature and significance of the relationship between the primary government and the CDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. Stand alone financial statements for CDC as of and for the fiscal year ended September 30, 2016 are not prepared.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2016

C. 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 and fiduciary 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 City 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 City.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary fund:

The *Water and Sewer Fund* operates the water distribution system and the wastewater treatment plants, wastewater pumping stations, and collection systems.

Additionally, the City reports the following fund types:

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditures for specified purposes (not including expendable trusts or major capital projects).

The *Capital Projects Fund* was established to account for resources to be used for the acquisition or construction of general major capital facilities. Financing is provided primarily by the sale of general obligation bonds.

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 City 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 City's water and wastewater function and various other functions of the City. 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

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2016

special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, miscellaneous revenue, and interest income.

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 Water and Sewer enterprise fund are charges to customers for sales and services. The enterprise utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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.

D. Assets, liabilities, and net position or equity

1. Deposits and investments

The City maintains various accounts for each fund at its depository. The City also has cash maintained by agents for debt payments and reserves, and construction reserves. For purposes of the statement of cash flows, the City considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The City investment policy authorizes the Director of Finance to invest in the following types of investments:

- a. Obligations of the United States or its agencies and instrumentalities with finite maturity dates, with a maximum maturity of not greater than 5 years. Laddering of investments should be considered.
- b. Direct obligations of the State of Texas or its agencies and instrumentalities, with stated finite maturity dates.
- c. Other obligations, with finite maturity dates, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies or instrumentalities.
- d. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.
- e. Certificates of deposit issued by a state or national bank domiciled in the state of Texas or a savings bank domiciled in the state of Texas provided that they are:
 - (1) Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor,
 - (2) Secured by obligations outlined in items a – d. The market value of all collateral must be marked to market on a daily basis and shall not be less than 102% of the principal amount of the certificate plus accrued interest, or
 - (3) Secured in any other manner in an amount provided by law for deposits of the City.
- f. Repurchase agreements which are fully collateralized by obligations of the United States or its agencies and instrumentalities, marked to market on a daily basis with a market value of at least of the 102% of the principal invested, including accrued interest. The securities being purchased must be pledged to the City and held in the City's name by a third party selected and approved by the City. The repurchase agreement must have a defined termination date and be placed through a primary government securities dealer or a financial institution doing business in the state of Texas. The repurchase agreements should be secured by obligations approved in this policy.
- g. Banker's acceptances having a stated maturity of 270 days or less, to be liquidated in full at maturity, which are rated not less than "A-1" or "P-1" (or an equivalent rating) by at least one nationally recognized credit rating agency provided that it is eligible for borrowing from a Federal Reserve Bank.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

- h. Commercial paper having a stated maturity of 270 days or less and rated not less than "A-1" or "P-1" (or an equivalent rating) by at least two nationally recognized rating agencies or one nationally recognized rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States.
- i. No-load money market mutual fund registered with and regulated by the SEC, which has a dollar-weighted average stated maturity of 90 days or less. It must have included in its investment objectives its intent to maintain a stable net assets value of \$1 for each share. The fund must provide the City with a prospectus and other information required by the SEC.
- j. No-load mutual funds, registered with and regulated by the SEC, having weighted maturity of less than two years, and which invests exclusively in investments approved by this policy.
- k. Investment pools which are approved by the City Council, provided they meet all the criteria for investment pools outlined in Chapter 2256, Texas Local Government Code, and maintain a continuous rating not lower than AAA or AAA-m (or an equivalent rating) from at least one nationally recognized rating service.

Investments having a maturity of 1 year or more, when purchased, are stated at fair value. Short term investments are stated at cost or amortized cost.

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 inter fund 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 trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied on October 1 by the City based on the January 1 property values as assessed by the Rockwall, Collin, and Hunt County Central Appraisal Districts. Taxes are due without penalty until January 31, of the next calendar year. After January 31 the City has an enforceable lien with respect to both real and personal property. Under state law, property taxes levied on real property constitute a perpetual lien on the real property which cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property can be deemed uncollectible by the City.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

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

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

columns in the government-wide financial statements. Capital assets are defined by the City 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.

Capital assets of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings and improvements	7 - 30
System infrastructure	20 - 40
Vehicles	4 - 20
Office Furniture and equipment	5
Machinery and equipment	10

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has two items which qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second deferred outflow of resources consists of the amount of pension expense deferred to future periods based upon the implementation of GASB 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two types of deferred inflows of resources, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and fines receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflow of resources is that associated with the implementation of GASB 68.

7. Compensated absences

It is the City's policy to pay a separating employee with at least six months of continuous service unused vacation leave not to exceed 80 hours. The rate of pay will be determined by the salary rate in effect at the time of separation. As such, there is an accrual at the close of the fiscal year end in the government-wide and proprietary fund financial statements for the amount. 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 due to all employees as of September 30, 2016. No unused sick or holiday leave will be paid out upon termination of employment.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2016

activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates 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.

9. Fund equity

Nonspendable Fund Balance Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed Fund Balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through legislation, resolution or ordinance, unless the City Council removes or changes the specified use by taking the same type of action used to commit the amounts.

Assigned Fund Balance - Amounts that are constrained by the City Council, or the City Manager or Director of Finance, based upon delegation of this authority by the City Council, that are to be used for specific purposes but are neither restricted nor committed.

Unassigned Fund Balance - Amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (committed, assigned and unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent first. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used. The City has not established a formal policy to set forth a minimum level for fund balances.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

	General Fund	Debt Service	Other Funds	Total
Fund Balances				
Restricted for:				
Debt service	\$ --	\$878,728	\$ --	\$878,728
Capital projects	--	--	1,190,007	1,190,007
Roadway fees	--	--	1,092,887	1,092,887
Police	--	--	2,660	2,660
Municipal court use	--	--	92,930	92,930
Hotel motel use	--	--	223,054	223,054
	--	878,728	2,601,538	3,480,266
Assigned:				
General government	--	--	16,160	16,160
Library	--	--	2,149	2,149
Senior center	--	--	1,853	1,853
Parks and recreation	--	--	186	186
Public safety	--	--	13,703	13,703
Animal Control	--	--	14,780	14,780
	--	--	48,831	48,831
Unassigned	1,923,068	--	--	1,923,068
	<u>\$1,923,068</u>	<u>\$878,728</u>	<u>\$2,650,369</u>	<u>\$5,452,165</u>

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted to obtain taxpayer comments.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Therefore the fund level is the legal level of control.
4. Formal budgetary integration is employed as a management control device during the year. The legally adopted budgets for the General Fund, certain Special Revenue Funds and the Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles.
5. Budgeted amounts are as originally adopted or as amended by the City Council. During 2016, individual amendments were not material in relation to the original appropriations. Any budgeted amounts appropriated at fiscal year-end and not spent automatically lapse.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

6. The City did not adopt budgets for certain Special Revenue Funds. These unbudgeted Special Revenue Funds were as follows:

Library Grant
Library Donations
Animal Shelter New Building

7. Capital Project funds, when present are not budgeted. Since project length financial plans usually extend into two or more fiscal years, this makes comparisons confusing and misleading.

B. Deficit fund equity

There were no fund deficits at September 30, 2016.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. At September 30, 2016, the City's deposits were entirely insured or collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; as a result, the City's deposits were not exposed to custodial credit risk.

Investments

At September 30, 2016, the City had the following investments which are considered cash equivalents:

	Fair Value	Weighted Average Maturity (Days)
Investment Type		
LOGIC	\$7,703,927	45
Cash	4,740,978	
Total cash and cash equivalents	<u>\$12,444,905</u>	

Cash and cash equivalents are reported in the:

Statement of net assets as follows:

Governmental activities unrestricted	\$5,486,192
Governmental activities restricted	—
Business-type activities unrestricted	1,599,604
Business-type activities restricted	<u>3,746,589</u>
Total City	10,832,385
CDC Discrete Component Unit	<u>1,612,520</u>
	<u>12,444,905</u>

The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditor 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.

Currently all of the City's investments are with Local Government Investment Cooperative (LOGIC).

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2016

LOGIC was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Public Funds Investment Act allows eligible local governments, state agencies, and nonprofit corporations of the State of Texas to jointly invest their funds in permitted investments.

LOGIC's governing body is a five-member Board of Directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the Co-Administrators of LOGIC.

In order to comply with the Public Funds Investment Act, all portfolios will maintain a AAAm or equivalent rating from at least one nationally recognized rating agency. Standard & Poor's currently rates LOGIC AAAm.

The portfolio is managed by JPMorgan Investment Management, Inc. Day-to-day administration is performed by First Southwest Company and JPMorgan Investment Management, Inc. First Southwest provides distribution, administrative, participant support and marketing services. JPMorgan Investment Management, Inc. or its affiliates provides management, custody and fund accounting services. A request for LOGIC's financial statements can be made at www.logic.org.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2016 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements and the actual rating as of year end for each investment type.

Concentration of Credit Risk

With the exception of U.S. Treasury securities, certificates of deposit and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

As of September 30, 2016, the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor, and proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Nonmajor and Other	Total Governmental	Water and Sewer
Taxes receivable	\$88,812	\$76,125	\$ --	\$164,937	\$ --
Fines receivable	\$276,709	\$ --	\$ --	\$276,709	\$ --
Allowance for uncollectibles	(83,345)	--	--	(83,345)	--
	\$193,364	\$ --	\$ --	\$193,364	\$ --
Accounts receivable	\$ --	\$ --	\$ --	\$ --	\$1,397,261
Allowance for uncollectibles	--	--	--	--	(239,190)
Net other receivables	\$ --	\$ --	\$ --	\$ --	\$1,158,071
Other receivables	\$134,632	\$ --	\$30,274	\$164,906	\$ --

C. Deferred/Unearned Revenue

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:

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$82,590	\$ --
Fines receivable (General Fund)	125,018	--
Delinquent property taxes receivable (Debt Service Fund)	71,647	--
Developer deferred revenue	10,033	10,033
Total deferred/unearned revenue for governmental funds	\$289,288	\$10,033

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

D. Capital assets

Capital asset activity for the year ended September 30, 2016:

Primary Government

	Balance 9/30/15	Additions	Retirements	Completed Construction	Balance 9/30/16
GOVERNMENTAL ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$925,169	\$ --	\$ --	--	\$925,169
Construction in progress	--	673,282	--	--	673,282
	<u>925,169</u>	<u>673,282</u>	<u>--</u>	<u>--</u>	<u>1,598,451</u>
Capital assets, being depreciated:					
Buildings and improvements	10,287,004	2,201,060	--	--	12,488,064
Machinery and equipment	2,766,928	308,776	--	--	3,063,704
Total capital assets being depreciated	<u>13,043,932</u>	<u>2,507,836</u>	<u>--</u>	<u>--</u>	<u>15,551,768</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,667,619)	(236,141)	--	--	(1,903,760)
Machinery and equipment	(2,200,439)	(159,012)	--	--	(2,300,051)
Total accumulated depreciation	<u>(3,868,058)</u>	<u>(395,753)</u>	<u>--</u>	<u>--</u>	<u>(4,263,811)</u>
Total capital assets being depreciated, net	<u>9,175,874</u>	<u>2,112,083</u>	<u>--</u>	<u>--</u>	<u>11,287,957</u>
Governmental activities capital assets, net	<u>\$10,101,043</u>	<u>\$2,785,365</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$12,886,408</u>

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

	Balance 9/30/15	Additions	Retirements	Completed Construction	Balance 9/30/16
BUSINESS-TYPE ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$1,340,132	\$ --	\$ --	\$ --	\$1,340,132
Construction in progress	9,769	241,128	--	--	250,897
Total capital assets not being depreciated	1,349,901	241,128	--	--	1,591,029
Capital assets, being depreciated:					
Buildings and improvements	39,651	--	--	--	39,651
Water and sewer system	20,043,760	3,696,502	--	--	23,740,262
Machinery and equipment	537,135	--	--	--	537,135
Total capital assets being depreciated	20,620,446	3,696,502	--	--	24,316,948
Less accumulated depreciation for:					
Buildings and improvements	(34,893)	(1,066)	--	--	(35,959)
Water and sewer system	(4,160,784)	(547,301)	--	--	(4,708,085)
Machinery and equipment	(158,807)	(10,703)	--	--	(169,510)
Total accumulated depreciation	(4,654,484)	(559,070)	--	--	(5,213,554)
Capital assets being depreciated, net	15,965,962	3,137,432	--	--	19,103,394
Business type activities capital assets, net	\$17,315,863	\$3,378,560	\$ --	\$ --	\$20,694,423

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

Governmental activities:

General government	\$48,115
Public safety	117,955
Public works	172,273
Public services	38,303
Community development	4,813
Culture and recreation	14,294
Total depreciation expense - governmental activities	<u>\$395,753</u>

Business-type activities:

Water and sewer	<u>\$559,070</u>
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CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

Construction commitments

The City has active construction projects as of September 30, 2016, consisting of street and water system improvements.

Project	Spent to Date	Remaining Commitment
Wood Street reconstruction	\$71,356	\$81,724
FM 2642/I30 waterline	2,891	20,578
Bell Street Waterline water system	238,613	129,656
	<u>\$312,860</u>	<u>\$231,958</u>

The street reconstruction project is being financed by bond proceeds. The water system improvements are being financed by bond proceeds, and a TXDOT reimbursement.

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2016, is as follows:

Fund	Receivable	Payable
General Fund	\$21,987	\$ --
Debt Service Fund		21,987
2016 Bonds Capital Projects	--	115,250
Water and Sewer Fund	115,250	--
Totals	<u>\$137,237</u>	<u>\$137,237</u>

The outstanding balances between funds result primarily from the temporary overdraft of pooled cash.

The composition of interfund transfers for the year ended September 30, 2016, is as follows:

Fund	Transfer In	Transfer Out
Major Governmental Funds		
General Fund	\$743,000	\$ --
Debt Service Fund	--	--
Nonmajor Governmental Funds		
Roadway Impact Fees		15,000
Juvenile Case Management		8,000
Water and Sewer Enterprise Fund	--	720,000
Totals	<u>\$743,000</u>	<u>\$743,000</u>

Transfers are made to fund general administrative operations.

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

F. Long-term debt

The City issues general obligation debt (in the form of general obligation bonds, certificates of obligation, contractual obligations, and notes payable) to provide funds for the acquisition and construction of major capital facilities. General obligation debt has been issued for both governmental and business-type activities. These issues are direct obligations and pledge the full faith and credit of the City.

General Obligation Debt Outstanding as of September 30, 2016, is as follows:

Description	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance 9/30/16
Governmental Activities					
Total General Obligation Bonds					
Certificates of Obligation Bonds:					
CO, Series 2006	1,875,000	2006	2026	4.03%	\$1,200,000
CO, Series 2007 A	7,850,000	2007	2027	4.25%-5.75%	5,340,000
CO, Series 2011	535,000	2011	2031	4.25%	485,000
CO, Series 2016	1,915,000	2016	2036	2.00%-3.00%	1,915,000
Total Certificates of Obligation					8,940,000
Total Governmental Activities General Obligation Debt					8,940,000
Business-type Activities:					
General Obligation Bonds:					
GO Refunding, Series 2010	555,000	2010	2019	2.00%-3.75%	360,000
GO Refunding, Series 2014	4,695,000	2014	2030	1.50%-3.50%	4,025,000
Total General Obligation Bonds					4,385,000
Certificates of Obligation Bonds:					
CO, Series 2007B	4,695,000	2007	2027	5.81%-6.38%	3,325,000
CO, Series 2010	3,690,000	2010	2019	2.00%-4.50%	3,165,000
CO, Series 2013	1,585,000	2013	2033	2.00%-3.00%	1,455,000
CO, Series 2016	575,000	2016	2036	2.00%-3.00%	575,000
Total Certificates of obligation					8,520,000
Total business-type general obligation debt					12,905,000
Total General Debt					\$21,845,000

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

Annual debt service requirements to maturity for general debt:

Year	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$645,000	\$379,325	\$920,000	\$523,131	\$2,467,456
2018	675,000	340,168	945,000	487,900	2,448,068
2019	705,000	314,474	980,000	453,326	2,452,800
2020	735,000	287,603	890,000	417,107	2,329,710
2021	765,000	257,394	920,000	382,850	2,325,244
2022-2026	4,190,000	790,795	4,670,000	1,338,129	10,988,924
2027-2031	995,000	103,288	3,195,000	352,248	4,645,536
2032-2036	230,000	18,911	385,000	23,802	657,713
Total	<u>\$8,940,000</u>	<u>\$2,491,958</u>	<u>\$12,905,000</u>	<u>\$3,978,493</u>	<u>\$28,315,451</u>

Capitalized Lease Obligations

The City has entered into a contract to purchase various vehicles. This contract has been treated as a capitalized lease.

Capitalized lease obligations outstanding at September 30, 2016 are as follows:

Purpose	Original Amount	Year Issue	Final Maturity	Interest Rate	Balance 9/30/16
Capital Leases					
Governmental activities					
Public safety vehicles	\$63,680	2012	2017	3.98%	\$13,525
Public safety vehicles	154,197	2015	2018	2.95%	102,192
					<u>115,717</u>
Business-type activities					
Backhoe	\$67,724	2015	2020	3.504%	50,927
Total Capitalized Lease Obligations					<u>\$166,644</u>

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

Capital lease obligation debt service requirements to maturity are as follows:

Year	Governmental Activities	Business-type Activities	Total
2017	\$67,829	\$13,866	\$81,695
2018	53,838	13,866	67,704
2019	—	13,866	13,866
2020	—	13,866	13,866
Total payments	121,667	55,464	177,131
Less imputed interest	(5,950)	(4,537)	(10,487)
Total Capital Lease Obligations	<u>\$115,717</u>	<u>\$50,927</u>	<u>\$166,644</u>

CHANGES IN LONG-TERM LIABILITIES

During the year ended September 30, 2016, the following changes occurred in liabilities reported in the capital long-term debt:

	Balance 9/30/15	Additions	Retirements	Balance 9/30/16	Due Within One Year
Governmental activities:					
General obligation bonds	\$7,000	\$ —	(\$7,000)	\$ —	\$ —
Certificates of obligation	7,500,000	1,915,000	(475,000)	8,940,000	645,000
Deferred amounts:					
Unamortized premium (discount)	(64,525)	90,275	(5,325)	20,425	(874)
Total bonds payable	7,442,475	2,005,275	(487,325)	8,960,425	644,126
Capital lease obligations	42,672	154,197	(81,152)	115,717	65,493
Compensated absences	107,663	108,694	(107,663)	108,694	10,869
Net pension liability	784,911	486,601	—	1,271,512	—
Governmental activity Long-Term Liabilities	<u>\$8,377,721</u>	<u>\$2,754,767</u>	<u>(\$676,140)</u>	<u>\$10,456,348</u>	<u>\$720,488</u>

CITY OF ROYSE CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2016

	Balance 9/30/15	Additions	Retirements	Balance 9/30/16	Due Within One Year
Business-type activities:					
General obligation bonds	\$4,810,000	\$ --	(\$425,000)	\$4,385,000	\$435,000
Certificates of obligation	8,380,000	575,000	(435,000)	8,520,000	485,000
Unamortized premium (discount)	2,019	26,257	4,728	33,004	1,913
Total bonds payable	13,192,019	601,257	(855,272)	12,938,004	921,913
Capital lease	62,724	--	(11,797)	50,927	12,082
Compensated absences	12,279	11,527	(12,279)	11,527	1,152
Net pension liability	101,143	134,912	--	236,055	--
Business-type activities	<u>\$13,368,165</u>	<u>\$747,696</u>	<u>(\$879,348)</u>	<u>\$13,236,513</u>	<u>\$935,147</u>

For the governmental activities, claims and judgements and compensated absences are generally liquidated by the general fund.

Authorized and Unissued Debt

The City has no authorized but unissued debt at September 30, 2016:

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

B. North Texas Municipal Water District

The District is a conservation and reclamation district and political subdivision of the State of Texas, created and functioning under Chapter 62, Acts of 1951, 52nd Legislature, Regular Session, as amended, originally compiled as Vernon's Article 8270-141 (the "Act"), pursuant to Article 16, Section 59 of the Texas Constitution. The District comprises all of the territory of its member cities, viz., Allen, Garland, Princeton, Plano, Mesquite, Wylie, Farmersville, McKinney, Richardson, Forney and Royse City (the "Member Cities"). The District was created for the purpose of providing a source of water supply for municipal, domestic and industrial use and for the treatment processing and transportation of such water to its Member Cities and to its other customers located in North Central Texas, all within the Dallas Standard Metropolitan Statistical Area.

Under the Act, including specifically Section 27 thereof, and under the Constitution and Statutes of the State of Texas, the District has broad powers to (1) impound, control, store, preserve, treat, transmit and use storm and flood water, the water of rivers and streams and underground water, for irrigation, power and all other useful purposes and to supply water for municipal, domestic, power, industrial and commercial uses and purposes and all other beneficial uses and purposes; and (2) collect, transport, process, treat, dispose of, and control all municipal, domestic, industrial or commercial waste whether in fluid, solid or composite state, including specifically the control, abatement or reduction of all types of pollution. The City retains no ongoing financial

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interest equity investments and/or responsibilities for the District other than the contractual arrangements discussed more fully herein.

The District has long-term contracts with the City to supply treated water and sewer treatment. The City's water contract with the District provides that the City pay a predetermined annual amount for treated water in twelve monthly installments. The amount of this annual payment is based upon an annually established rate per thousand gallons and the largest annual amount of water consumption of past years. The City owns one sewage treatment facility which is operated by the District. Under the terms of these contracts, the City's payments, which began when the facilities were first utilized, are equal to the operating and maintenance expenses for the next ensuing calendar year, as shown in the Annual Budget. The contracts further provide that the debt service payments will be equal to the principal and/or interest coming due on the bonds on the next succeeding interest payment date, plus the fees and charges of the Paying Agent and the Registrar.

C. Contingent Liabilities and Commitments

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

As described in Note III, F. above, the general revenues of the City are contingently liable for the \$12,905,000 payable in General Obligation Bonds which are currently outstanding and recorded as obligations of the Enterprise Fund.

The City contracts for garbage disposal with a third party. Under the terms of the agreement the city bills and collects the residential and commercial billing and remits that amount to the contracting party.

D. Related Party Transactions

The CDC leases office space from a member of the CDC board of directors. Total rental expense for the year was \$ 6,600.

E. Commitment for Economic Development

The City entered into an agreement with a developer under the Chapter 380 Economic Development Program as of April 7, 2008. Under terms of the agreement, the Developer paid for certain infrastructure improvements normally paid for by the City. Upon completion of the project, the Developer is to be reimbursed for the infrastructure by receiving a portion of the sales tax generated by the new businesses. The total amount paid to the developer out of sales tax for the fiscal year ended September 30, 2016 was \$108,443. The remaining balance to be reimbursed was \$8,066,113 at September 30, 2016.

F. Retirement Commitments

1. Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

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2. Benefits

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest:

Employees covered by benefit terms.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees (or their beneficiaries) currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	33
Active employees	56
	<u>106</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.64% and 12.68% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$402,912 and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year

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set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2015 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
		(Arithmetic)
Domestic equity	17.50%	4.55%
International equities	17.50%	6.10%
Core fixed income	10.00%	1.00%
Non-core fixed income	20.00%	3.65%
Real return	10.00%	4.03%
Real estate	10.00%	5.00%
Absolute return	10.00%	4.00%
Private equity	5.00%	8.00%
	<u>100.00%</u>	

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Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	[a]	[b]	[c]
Balance at 12/31/14	\$5,369,487	\$4,315,915	\$1,053,572
Changes for the year:			
Service cost	499,985	--	499,985
Interest	389,694	--	389,694
Change of benefit terms	--	--	--
Difference between expected and actual experience	81,108	--	81,108
Changes of assumptions	128,063	--	128,063
Contributions - employer	--	412,033	(412,033)
Contributions - employees	--	230,554	(230,554)
Net investment income	--	6,369	(6,369)
Benefit payments including refunds of employee contributions	(104,842)	(104,842)	--
Amortization of prior year assets	--	--	--
Administrative expense	--	(3,879)	3,879
Other changes	--	(191)	191
Net changes	994,008	540,044	453,964
Balance at 12/31/15	\$6,363,495	\$4,855,959	\$1,507,536

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net Pension Liability/(Asset)	\$2,559,475	\$1,507,536	\$654,712

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$489,205. At September 30, 2016, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Original Amount	Date Established	Original Recognition Period	Amount Recognized in 12/31/15 Expense	Date of Deferred (Inflows)/Outflows 12/31/2015
Due to liabilities:					
Difference in expected and actual experience					
(actuarial (gains) or losses)	\$81,808	12/31/15	5.2700	\$15,391	\$65,717
	97,116	12/31/14	4.9346	19,681	57,754
Difference in assumption changes					
(actuarial (gains) or losses)	128,063	12/31/2015	5.2700	24,300	103,763
				<u>59,372</u>	<u>227,234</u>
Due to assets:					
Difference in projected and actual earnings on					
pension plan reserves (actuarial (gains)/losses)	295,745	12/31/15	5.0000	59,149	236,596
	48,012	12/31/14	5.0000	9,602	28,808
Employer contributions made subsequent to measurement date					296,589
				<u>68,751</u>	<u>561,993</u>
				<u>\$128,123</u>	<u>\$789,227</u>

\$492,638 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Inflows/outflows to Be Recognized in Future Years	
Year ended December 31,	
2016	\$128,123
2017	128,123
2018	126,836
2019	98,840
2020	10,716
	<u>\$492,638</u>

E. Other Postemployment Benefits

Supplemental Death Benefits Fund (SDBF)

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by

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ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$4,893, \$4,342, and \$3,489, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates,

(Retiree-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.13%	0.13%	100%
2015	0.13%	0.13%	100%
2016	0.16%	0.16%	100%

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