

**CITY OF FARMERSVILLE, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2012**

RUTHERFORD, TAYLOR & COMPANY, P.C.  
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CITY OF FARMERSVILLE, TEXAS  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2012

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## GENERAL INFORMATION

CITY OF FARMERSVILLE, TEXAS  
ROSTER OF CITY OFFICIALS  
SEPTEMBER 30, 2012

Mayor.....Joe Helmberger  
Mayor Pro-Tem .....Jim Foy  
Treasurer .....Billy Long  
Council Woman.....Pansy Hundley  
Council Member.....Michael Carr  
Council Member.....Russell Chandler

CITY OF FARMERSVILLE, TEXAS  
CITY DIRECTORS  
SEPTEMBER 30, 2012

City Manager.....Ben White  
City Attorney.....Alan Lathrom  
City Secretary.....Edie Sims  
Police Chief .....Mike Sullivan  
Municipal Judge .....Terry Douglas

## FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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Honorable Mayor and Members of the City Council  
City of Farmersville, Texas

Members of the Council:

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

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

In our opinion, the basic 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 units, each major fund and the aggregate remaining fund information of the City of Farmersville, Texas as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Independent Auditor's Report

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The component unit financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

March 7, 2013  
Greenville, Texas



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

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Honorable Mayor and Members of the City Council  
City of Farmersville, Texas

Members of the Council:

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmersville, Texas (City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 7, 2013. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose as described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council and other grantors, and is not intended to be and should not be used by anyone other than these specified parties.

March 7, 2013  
Greenville, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Required Supplementary Information)

CITY OF FARMERSVILLE, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED SEPTEMBER 30, 2012

This section of the City of Farmersville, Texas annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2012. Please read it in conjunction with the City's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The City's total combined net assets were \$ 9,327,140 at September 30, 2012.
- During the year, the City's governmental activities expenses were \$ 407,647 more than the \$ 3,404,520 generated in taxes and other revenues, including transfers from business-type activities for governmental activities. Revenues of the business-type activities were \$ 91,800 less than the expenses, including transfers to governmental activities.
- The total cost of the City's programs was virtually unchanged from last year, and no new programs were added this year.
- The General Fund reported a fund balance this year of \$ 1,002,080.
- The City issued \$ 2,082,122 in new debt during the year to provide for capital improvements in the City and refund existing debt.

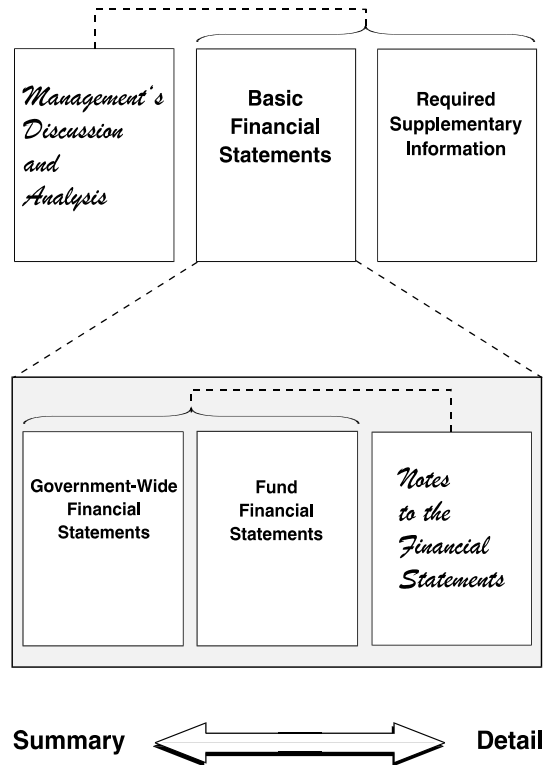
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as utility services.
- Fiduciary fund statements, if any, provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1, Required Components of the City's Annual Financial Report**



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

Figure A-2 summarizes the major features of the City's basic financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Fund Statements</b>			
	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private businesses: self insurance	Instances in which the city is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>*Statement of net assets</li> <li>*Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>*Balance sheet</li> <li>*Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>*Statement of net assets</li> <li>*Statement of revenues, expenses and changes in fund net assets</li> <li>*Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>*Statement of fiduciary net assets</li> <li>*Statement of changes in fiduciary net assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base and population.

The government-wide financial statements of the City include the governmental activities. Most of the City's basic services are included here, such as Police and fire protection, public works, community development and general administration. Property taxes, fees, fines and intergovernmental support – including grants – finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

- Proprietary funds—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the City's other programs and activities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net assets were \$ 9,327,140 at September 30, 2012.

	Net Assets					
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Cash and Investments	\$ 3,234,702	\$ 2,471,266	\$ 1,705,894	\$ 1,483,572	\$ 4,940,596	\$ 3,954,838
Receivables and Other Assets	386,126	570,186	176,328	327,189	562,454	897,375
Capital Assets, net of Accumulated Depreciation	<u>5,742,499</u>	<u>6,216,812</u>	<u>4,107,687</u>	<u>4,316,129</u>	<u>9,850,186</u>	<u>10,532,941</u>
<b>Total Assets</b>	<u>\$ 9,363,327</u>	<u>\$ 9,258,264</u>	<u>\$ 5,989,909</u>	<u>\$ 6,126,890</u>	<u>\$ 15,353,236</u>	<u>\$ 15,385,154</u>
<b>Liabilities</b>						
Current Liabilities	\$ 198,962	\$ 117,796	\$ 154,998	\$ 206,542	\$ 353,960	\$ 324,338
Noncurrent Liabilities	<u>5,672,136</u>	<u>4,113,064</u>	<u>-</u>	<u>-</u>	<u>5,672,136</u>	<u>4,113,064</u>
<b>Total Liabilities</b>	<u>\$ 5,871,098</u>	<u>\$ 4,230,860</u>	<u>\$ 154,998</u>	<u>\$ 206,542</u>	<u>\$ 6,026,096</u>	<u>\$ 4,437,402</u>
<b>Net Assets</b>						
Invested in Capital Assets, net of Related Debt	\$ 1,890,844	\$ 2,149,764	\$ 4,107,687	\$ 4,316,129	\$ 5,998,531	\$ 6,465,893
Restricted	442,169	1,158,775	-	-	442,169	1,158,775
Unrestricted	<u>1,159,216</u>	<u>1,718,865</u>	<u>1,727,224</u>	<u>1,604,219</u>	<u>2,886,440</u>	<u>3,323,084</u>
<b>Total Net Assets</b>	<u>\$ 3,492,229</u>	<u>\$ 5,027,404</u>	<u>\$ 5,834,911</u>	<u>\$ 5,920,348</u>	<u>\$ 9,327,140</u>	<u>\$ 10,947,752</u>

The largest portion of the City's net assets (64%) reflects its investment in capital assets (land, buildings, equipment and infrastructure), net of any related debt used to acquire the assets that is outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately \$ 234,670 (53%) of the City's restricted net assets represents funds for debt retirement. These funds are restricted for repayment of tax supported debt. Approximately \$ 207,499 (47%) is restricted for other purposes within the City.

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

**CHANGE IN NET ASSETS**

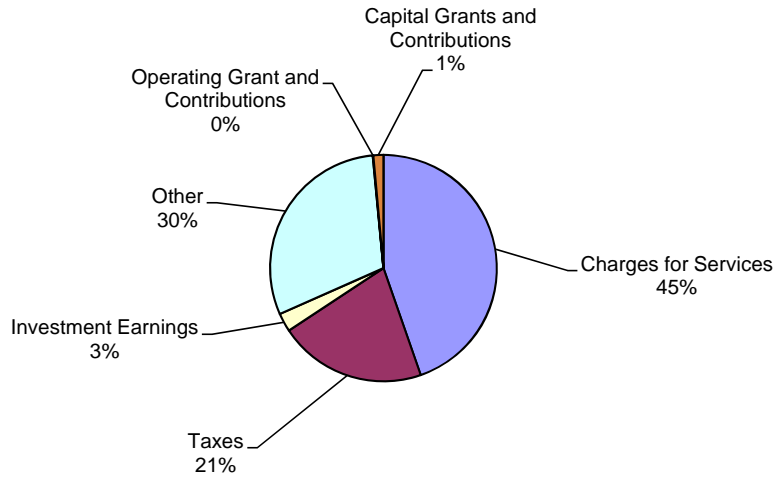
The following table presents the changes in net assets for the government-wide financial statements for the year ended September 30, 2012.

Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 217,286	\$ 357,346	\$ 2,056,784	\$ 2,334,543	\$ 2,274,070	\$ 2,691,889
Operating Grant and Contributions	205,388	135,347	865,068	287,623	1,070,456	422,970
Capital Grants and Contributions	105,336	-	30,257	-	135,593	-
<b>General Revenues</b>						
Taxes	1,533,732	1,523,008	-	-	1,533,732	1,523,008
Investment Earnings	2,086	5,865	1,692	1,892	3,778	7,757
Other	73,060	95,401	-	14,393	73,060	109,794
<b>Total Revenues</b>	<b>\$ 2,136,888</b>	<b>\$ 2,116,967</b>	<b>\$ 2,953,801</b>	<b>\$ 2,638,451</b>	<b>\$ 5,090,689</b>	<b>\$ 4,755,418</b>
<b>Expenses</b>						
<b>Governmental Activities</b>						
Mayor and City Council Administration	\$ 7,702	\$ 8,627	\$ -	\$ -	\$ 7,702	\$ 8,627
Municipal Court	469,890	508,382	-	-	469,890	508,382
Library and Civic Center	105,656	112,403	-	-	105,656	112,403
Police	133,019	113,334	-	-	133,019	113,334
Fire and Emergency Services	899,602	780,491	-	-	899,602	780,491
Public Works	306,985	201,830	-	-	306,985	201,830
Community Development	1,624,583	1,011,480	-	-	1,624,583	1,011,480
Economic Development	110,907	130,522	-	-	110,907	130,522
Debt Service	-	174,586	-	-	-	174,586
	153,823	88,095	-	-	153,823	88,095
<b>Business-type Activities</b>						
Water and Wastewater Utility	-	-	1,362,982	1,352,346	1,362,982	1,352,346
Electric Utility	-	-	71,676	169,937	71,676	169,937
Refuse Utility	-	-	343,311	347,311	343,311	347,311
<b>Total Expenses</b>	<b>\$ 3,812,167</b>	<b>\$ 3,129,750</b>	<b>\$ 1,777,969</b>	<b>\$ 1,869,594</b>	<b>\$ 5,590,136</b>	<b>\$ 4,999,344</b>
Excess (Deficiency) before Transfers	\$ (1,675,279)	\$ (1,012,783)	\$ 1,175,832	\$ 768,857	\$ (499,447)	\$ (243,926)
Transfer In (Out)	1,267,632	675,097	(1,267,632)	(675,097)	-	-
Increase (Decrease) in Net Assets	\$ (407,647)	\$ (337,686)	\$ (91,800)	\$ 93,760	\$ (499,447)	\$ (243,926)
Net Assets - October 1 (Beginning)	3,899,876	5,365,090	5,926,711	5,826,588	9,826,587	11,191,678
Net Assets - September 30 (Ending)	<b>\$ 3,492,229</b>	<b>\$ 5,027,404</b>	<b>\$ 5,834,911</b>	<b>\$ 5,920,348</b>	<b>\$ 9,327,140</b>	<b>\$ 10,947,752</b>

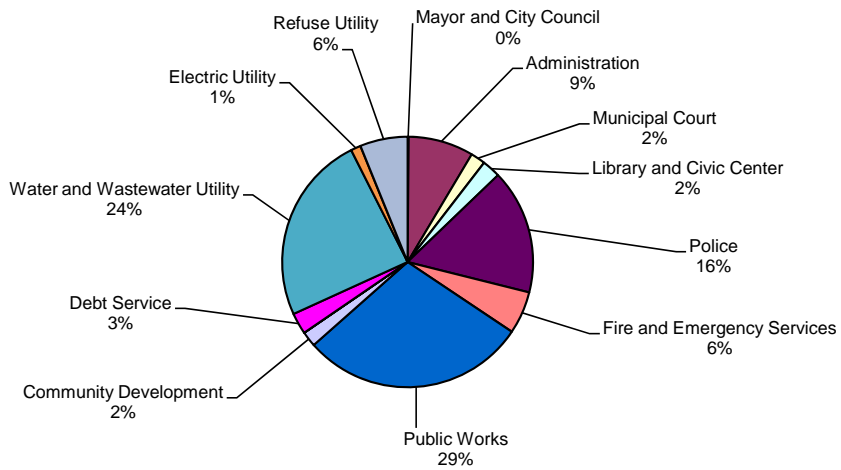
The charts that follow provide a snapshot of the government-wide activities of the City. The revenues are presented reflecting the sources and percentage of source of revenue. The expense chart presents expenses identified by the program or activity for which the expense was incurred.

CITY OF FARMERSVILLE, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED SEPTEMBER 30, 2012

**Government-wide Revenues**



**Government-wide Expenses**



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

**GOVERNMENTAL ACTIVITIES**

The City's total governmental activities revenues were \$ 2,136,888. 72% of the City's revenue comes from taxes and franchise fees. Taxes include property taxes, sales taxes and utility franchise fees. 25% of revenue is generated through charges for services, which includes rental, licenses and permits, intergovernmental support for services provided to other entities and other user charges. The remaining 3% is comprised of other miscellaneous sources, including investment earnings.

The total cost of all governmental activities programs and services was \$ 3,812,167. Public works, which includes street maintenance and related activities, represents 43% of the expenses. Police, fire and emergency services comprised 32% of the current year expenses. The remaining 25% of expenses includes general administration, municipal court and other governmental activities.

**BUSINESS –TYPE ACTIVITIES**

Business-type activities include the water and wastewater utility, electric utility and refuse utility. The overall operation of the utilities was similar to prior years.

The water and wastewater utility's revenues were less than its expenses and transfer to governmental activities by \$ 217,078. The utility provides water and wastewater services to the residents of the City. It provides treated water to various outside-the-city customers as well.

The electric utility is maintained to account for the operating costs associated with the upkeep of the City's electric distribution system. The City has leased out the system's operation to a third-party electricity provider, and in return the City receives a management fee. The City's responsibility is to provide all supplies and materials for the up-keep of the system. During this year, the City received a management fee totaling \$ 865,068.

The refuse utility accounts for the services provided for solid waste collection and disposal within the City. In 2012, the revenues generated were \$ 6,871 more than the expenses, including transfers to the governmental activities. The largest expense relates to the contract with the third-party collection and disposal company, which is 96% of the utility expenses.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflow, outflow and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported total ending fund balances of \$ 3,166,037. Approximately one third of the total ending fund balance (\$ 1,002,080) constituted unreserved fund balance, which is considered available for appropriation. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted to pay debt service (\$ 233,783), or restricted for capital improvements (\$ 1,722,675) as well as other restricted or committed purposes.

General Fund expenditures and other uses were less than revenues and other resources in the current period by \$ 300,286. The expenses for the fund reflecting an overall increase of \$ 400,995. Expenditure classifications both increased and decreased with the largest variances in the Administration (8% decrease), Police (14% increase), Fire and Emergency Services (109% increase) and Public Works (35% increase) classifications..

Other governmental funds ended the year with expenditures exceeding revenues and other uses by \$ 1,238,357.

Proprietary Funds – The proprietary funds – enterprise funds – are used to account for activities that are supported by charges for services rendered and are operated like a business. In each of the major enterprise funds, the revenues exceeded the expenses. The results of operations reflected gains that in part were transferred to the general fund to help defray the City's operating costs and to the debt service fund to retire the portion of the debt used to improve the water/wastewater system.



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget reflected various supporting grants received for public works and community development projects in the City.

General Fund revenues earned fell short of anticipated revenues in the amended budget by \$ 7,073. Areas in which the estimated revenues were exceeded were fines and intergovernmental support. While these areas exceeded the estimated amounts of revenue taxes and franchise fees, license and permits and miscellaneous revenue were below estimated amounts.

General Fund actual expenditures were \$ 237,512 below the appropriated amounts. The administration, police and public works areas were the largest positive variances.

**CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business-type activities at September 30, 2012 exceeded the amounts previously reported by \$ 47,436. The total capital assets at year end were \$ 9,850,186 (net of accumulated depreciation). This investment in capital assets included land and right-of-way costs, construction in progress, buildings and improvements, equipment and infrastructure. Additional information on the City's capital assets can be found in the notes to the basic financial statements following this analysis.

Capital Assets						
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
<b>Nondepreciable Assets</b>						
Land	\$ 1,245,042	\$ 1,245,042	\$ 67,285	\$ 67,285	\$ 1,312,327	\$ 1,312,327
Construction in Progress	145,141	145,141	-	863,660	145,141	1,008,801
<b>Depreciable Assets</b>						
Buildings and Improvements	1,863,657	1,863,657	10,440,654	9,542,909	12,304,311	11,406,566
Equipment	1,747,799	1,734,449	353,073	353,072	2,100,872	2,087,521
Infrastructure	11,173,489	11,173,489	-	-	11,173,489	11,173,489
<b>Total Capital Assets</b>	<b>16,175,128</b>	<b>16,161,778</b>	<b>10,861,012</b>	<b>10,826,926</b>	<b>27,036,140</b>	<b>26,988,704</b>
<b>Less Accumulated Depreciation</b>	<b>(10,432,629)</b>	<b>(9,944,966)</b>	<b>(6,753,325)</b>	<b>(6,510,797)</b>	<b>(17,185,954)</b>	<b>(16,455,763)</b>
<b>Net Capital Assets</b>	<b>\$ 5,742,499</b>	<b>\$ 6,216,812</b>	<b>\$ 4,107,687</b>	<b>\$ 4,316,129</b>	<b>\$ 9,850,186</b>	<b>\$ 10,532,941</b>

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2012

**LONG-TERM OBLIGATIONS**

The City's governmental activities long-term obligations, including bonds, capital leases and loans, totaled \$ 5,099,959 at September 30, 2012. This number represents a total increase of \$ 1,559,071 during the year. The City has no business-type activities long-term obligations at September 30, 2012. Additional information on the City's long-term obligations can be found in the notes to the basic financial statements following this analysis.

	Long Term Obligations					
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
Bonds	\$ 5,060,000	\$ 3,745,000	\$ -	\$ -	\$ 5,060,000	\$ 3,745,000
Loans	582,122	-	-	-	582,122	-
Capital Leases	21,643	361,089	-	-	21,643	361,089
Other	8,370	6,975	-	-	8,370	6,975
<b>Total</b>	<b>\$ 5,672,135</b>	<b>\$ 4,113,064</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,672,135</b>	<b>\$ 4,113,064</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the adopted budget, the City Council and the city administration set the direction of the City, allocate its resources and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government, as well as user charges for the utilities are evaluated and, if necessary, adjusted to meet the needs of the operations of the systems. The budget is then adopted and a tax rate is approved to meet the demands of the budget.

Overall, total budgeted expenditures in all operating funds increased 7%, from \$ 5,637,450 in FY 2012 to \$ 6,073,103 in FY 2013. The overall increase in budgeted expenditures was primarily due to the increasing costs of operations in the City.

The FY 2013 budgeted expenditures are to be covered by budgeted revenues, except \$ 83,322 which will be covered by available fund balances or working capital.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ben White, City Manager for the City.

## BASIC FINANCIAL STATEMENTS

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Cash and Investments	\$ 3,234,702	\$ 1,705,894	\$ 4,940,596	\$ 954,430
Accounts Receivable, net		176,328	176,328	-
Property Taxes Receivable, net	84,716	-	84,716	-
Fines Receivable, net	100,560	-	100,560	-
Sales Tax Receivable	56,330	-	56,330	56,330
Other Receivables	1,682	-	1,682	-
Due from Other Governments	45,032	-	45,032	-
Debt Issuance Costs	97,806	-	97,806	-
Restricted Cash	-	-	-	-
Capital Assets, net				
Nondepreciable	1,390,183	438,269	1,828,452	182,820
Depreciable	4,352,316	3,669,418	8,021,734	-
<b>Total Assets</b>	<b>\$ 9,363,327</b>	<b>\$ 5,989,909</b>	<b>\$ 15,353,236</b>	<b>\$ 1,193,580</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 131,405	\$ 7,540	\$ 138,945	\$ 13,462
Accrued Wages Payable	36,234	12,155	48,389	-
Interest Payable	31,323	-	31,323	-
Customer Deposits	-	135,303	135,303	-
Non-Current Liabilities				
Due within one year	312,014	-	312,014	10,698
Due in more than one year	5,360,122	-	5,360,122	137,564
<b>Total Liabilities</b>	<b>\$ 5,871,098</b>	<b>\$ 154,998</b>	<b>\$ 6,026,096</b>	<b>\$ 161,724</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, net of related debt	\$ 1,890,844	\$ 4,107,687	\$ 5,998,531	\$ 34,558
Restricted for:				
Debt Service	234,670	-	234,670	-
Other Purposes	207,499	-	207,499	997,298
Unrestricted	1,159,216	1,727,224	2,886,440	-
<b>Total Net Assets</b>	<b>\$ 3,492,229</b>	<b>\$ 5,834,911</b>	<b>\$ 9,327,140</b>	<b>\$ 1,031,856</b>

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Governmental Activities:</b>								
Mayor and City Council	\$ 7,702	\$ -	\$ -	\$ -	\$ (7,702)	\$ -	\$ (7,702)	
Administration	469,890	52,516	-	-	(417,374)	-	(417,374)	
Municipal Court	105,656	41,387	-	-	(64,269)	-	(64,269)	
Library and Civic Center	133,019	-	246	-	(132,773)	-	(132,773)	
Police	899,602	68,719	85,583	-	(745,300)	-	(745,300)	
Fire	306,985	27,332	-	-	(279,653)	-	(279,653)	
Public Works	1,624,583	27,332	39,853	-	(1,557,398)	-	(1,557,398)	
Community Development	110,907	-	79,706	105,336	74,135	-	74,135	
Debt Service	153,823	-	-	-	(153,823)	-	(153,823)	
<b>Total Governmental Activities</b>	<b>\$ 3,812,167</b>	<b>\$ 217,286</b>	<b>\$ 205,388</b>	<b>\$ 105,336</b>	<b>\$ (3,284,157)</b>	<b>\$ -</b>	<b>\$ (3,284,157)</b>	
<b>Business-type Activities:</b>								
Water and Wastewater	\$ 1,362,982	\$ 1,622,692	\$ -	\$ 30,257	\$ -	\$ 289,967	\$ 289,967	
Electric	71,676	-	865,068	-	-	793,392	793,392	
Refuse	343,311	434,092	-	-	-	90,781	90,781	
<b>Total Business-type Activities</b>	<b>\$ 1,777,969</b>	<b>\$ 2,056,784</b>	<b>\$ 865,068</b>	<b>\$ 30,257</b>	<b>\$ -</b>	<b>\$ 1,174,140</b>	<b>\$ 1,174,140</b>	
<b>Total Primary Government</b>	<b>\$ 5,590,136</b>	<b>\$ 2,274,070</b>	<b>\$ 1,070,456</b>	<b>\$ 135,593</b>	<b>\$ (3,284,157)</b>	<b>\$ 1,174,140</b>	<b>\$ (2,110,017)</b>	
<b>Component Units:</b>								
4A - Economic Development	\$ 195,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195,713)
4B - Community Development	142,662	-	-	-	-	-	-	(142,662)
<b>Total Component Units</b>	<b>\$ 338,375</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (338,375)</b>
<b>General Revenues:</b>								
Property Taxes					\$ 975,030	\$ -	\$ 975,030	\$ -
Sales Taxes					484,970	-	484,970	484,970
Beverage Taxes / Franchise Fees					73,732	-	73,732	-
Investment Earnings					2,086	1,692	3,778	2,337
Other Income					73,060	-	73,060	-
Transfers					1,267,632	(1,267,632)	-	-
<b>Total General Revenues and Transfers</b>					<b>\$ 2,876,510</b>	<b>\$ (1,265,940)</b>	<b>\$ 1,610,570</b>	<b>\$ 487,307</b>
<b>Change in Net Assets</b>					<b>\$ (407,647)</b>	<b>\$ (91,800)</b>	<b>\$ (499,447)</b>	<b>\$ 148,932</b>
<b>Net Assets - October 1 (Beginning)</b>					<b>\$ 5,027,404</b>	<b>\$ 5,920,348</b>	<b>\$ 10,947,752</b>	<b>\$ -</b>
Prior Period Adjustment					(1,127,528)	6,363	(1,121,165)	882,924
<b>Net Assets - October 1 (Beginning)</b>					<b>\$ 3,899,876</b>	<b>\$ 5,926,711</b>	<b>\$ 9,826,587</b>	<b>\$ 882,924</b>
<b>Net Assets - September 30 (Ending)</b>					<b>\$ 3,492,229</b>	<b>\$ 5,834,911</b>	<b>\$ 9,327,140</b>	<b>\$ 1,031,856</b>

The accompanying notes are an integral part of this statement.

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

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 1,099,603	\$ 233,751	\$ 1,726,746	\$ 174,602	\$ 3,234,702
Receivables:					
Sales Taxes	56,331	-	-	-	56,331
Property Taxes	71,066	23,063	-	-	94,129
Less: Allowance for Uncollectibles	(7,107)	(2,306)	-	-	(9,413)
Fines	402,240	-	-	-	402,240
Less: Allowance for Uncollectibles	(301,680)	-	-	-	(301,680)
Due from Other Governments	-	-	-	45,032	45,032
Due from Other Funds	-	4,071	-	-	4,071
Other Receivables	1,682	32	-	-	1,714
Total Assets	<u>\$ 1,322,135</u>	<u>\$ 258,611</u>	<u>\$ 1,726,746</u>	<u>\$ 219,634</u>	<u>\$ 3,527,126</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 119,302	\$ -	\$ -	\$ 12,135	\$ 131,437
Accrued Wages Payable	36,234	-	-	-	36,234
Due to Other Funds	-	-	4,071	-	4,071
Interest Payable	-	4,071	-	-	4,071
Deferred Revenue	164,519	20,757	-	-	185,276
Total Liabilities	<u>\$ 320,055</u>	<u>\$ 24,828</u>	<u>\$ 4,071</u>	<u>\$ 12,135</u>	<u>\$ 361,089</u>
<b>FUND BALANCE</b>					
Restricted for:					
Debt Retirement	\$ -	\$ 233,783	\$ -	\$ -	\$ 233,783
Capital Projects	-	-	1,722,675	-	1,722,675
Other Purposes	-	-	-	63,036	63,036
Committed for:					
Other Purposes	-	-	-	144,463	144,463
Unassigned	1,002,080	-	-	-	1,002,080
Total Fund Balance	<u>\$ 1,002,080</u>	<u>\$ 233,783</u>	<u>\$ 1,722,675</u>	<u>\$ 207,499</u>	<u>\$ 3,166,037</u>
Total Liabilities and Fund Balance	<u>\$ 1,322,135</u>	<u>\$ 258,611</u>	<u>\$ 1,726,746</u>	<u>\$ 219,634</u>	<u>\$ 3,527,126</u>

The accompanying notes are an integral part of this statement.

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

Total fund balance - governmental funds	\$	3,166,037
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore not reported in the balance sheet		5,742,499
Other assets are not available to pay current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities		185,274
Interest payable on noncurrent liabilities are not due and payable in the current period and are not reported in the funds		(27,252)
Noncurrent liabilities are not due and payable in the current period and therefore not reported in the funds as follows:		
Bonds		(5,060,000)
Loans		(582,122)
Leases		(21,643)
Unamortized Bond Premium		(18,316)
Refunding Gain or Loss		9,946
Other long term assets are not available to pay for current period expenditures and are deferred in the funds.		97,806
Total net assets - governmental activities (Exhibit A-1)	\$	3,492,229

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2012

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes and Franchise Fees	\$ 1,279,950	\$ 226,058	\$ -	\$ -	\$ 1,506,008
Licenses and Permits	25,184	-	-	-	25,184
Fines	101,334	-	-	15,531	116,865
Service Fees	109,327	-	-	-	109,327
Miscellaneous	66,245	-	-	246	66,491
Interest Income	1,085	479	522	1	2,087
Grant Proceeds	-	-	-	105,336	105,336
InterGovernmental Support	159,411	-	-	30,198	189,609
<b>Total Revenues</b>	<b>\$ 1,742,536</b>	<b>\$ 226,537</b>	<b>\$ 522</b>	<b>\$ 151,312</b>	<b>\$ 2,120,907</b>
<b>EXPENDITURES</b>					
Current:					
Mayor and City Council	\$ 7,702	\$ -	\$ -	\$ -	\$ 7,702
Administration	468,224	-	-	-	468,224
Municipal Court	99,030	-	-	6,626	105,656
Library and Civic Center	128,740	-	-	796	129,536
Police	888,956	-	-	30,296	919,252
Fire and Emergency Medical Service	245,324	-	-	-	245,324
Public Works	701,066	-	522,439	-	1,223,505
Community Development	-	-	-	84,831	84,831
Debt Service	68,393	342,065	56,237	-	466,695
<b>Total Expenditures</b>	<b>\$ 2,607,435</b>	<b>\$ 342,065</b>	<b>\$ 578,676</b>	<b>\$ 122,549</b>	<b>\$ 3,650,725</b>
<b>OTHER RESOURCES (USES)</b>					
Bond Proceeds	\$ -	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000
Loan Proceeds	317,122	-	265,000	-	582,122
Bond Premium (Discount)	-	-	11,864	-	11,864
Other Uses - Refunding	(299,977)	-	-	-	(299,977)
Transfers In	1,153,720	113,912	-	12,500	1,280,132
Transfers Out	(12,500)	-	-	-	(12,500)
Sale of Capital Assets	6,820	-	-	-	6,820
<b>Total Other Resources (Uses)</b>	<b>\$ 1,165,185</b>	<b>\$ 113,912</b>	<b>\$ 1,776,864</b>	<b>\$ 12,500</b>	<b>\$ 3,068,461</b>
<b>Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses</b>	<b>\$ 300,286</b>	<b>\$ (1,616)</b>	<b>\$ 1,198,710</b>	<b>\$ 41,263</b>	<b>\$ 1,538,643</b>
Fund Balance - October 1 (Beginning)	\$ 708,157	\$ 235,399	\$ 523,965	\$ 166,236	\$ 1,633,757
Prior Period Adjustment	(6,363)	-	-	-	(6,363)
Fund Balance - October 1 (as restated)	\$ 701,794	\$ 235,399	\$ 523,965	\$ 166,236	\$ 1,627,394
Fund Balance - September 30 (Ending)	<b>\$ 1,002,080</b>	<b>\$ 233,783</b>	<b>\$ 1,722,675</b>	<b>\$ 207,499</b>	<b>\$ 3,166,037</b>

The accompanying notes are an integral part of this statement.



CITY OF FARMERSVILLE, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND EQUITY OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED SEPTEMBER 30, 2012

Net change in fund equity - total governmental funds	\$ 1,538,643
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital asset cost is allocated over the estimated useful life and reported as depreciation in the statement of activities	(577,995)
Acquisition of capital assets requires the use of current financial resources but has no effect on net assets	103,682
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	9,159
Repayment of debt principal is an expenditure in the funds but the payments reduce liabilities in the statement of net assets. Debt principal payments are as follows:	
Bonds	185,000
Leases	50,606
Bond issuance costs are amortized in the statement of activities but not in the funds	51,790
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	299,309
Changes in accrued interest expense from the beginning of the year to the end of the year	26,145
Proceeds from debt instruments are resources in the funds but liabilities in the statement of activities. Proceeds are as follows:	
Bonds	(1,500,000)
Loans	(582,122)
Debt Premium	(11,864)
	<u>(1,500,000)</u>
Change in net assets of governmental activities	<u>\$ (407,647)</u>

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	Water/ Wastewater Utility	Electric Utility	Refuse Utility	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Investments	\$ 1,253,025	\$ 370,973	\$ 81,896	\$ 1,705,894
Services Receivable	123,172	-	53,156	176,328
<b>Total Current Assets</b>	<b>\$ 1,376,197</b>	<b>\$ 370,973</b>	<b>\$ 135,052</b>	<b>\$ 1,882,222</b>
<b>Capital Assets</b>				
Land	\$ 65,285	\$ 2,000	\$ -	\$ 67,285
Buildings and Improvements	7,367,968	3,072,686	-	10,440,654
Equipment	202,163	113,410	37,500	353,073
Less: Accumulated Depreciation	(3,576,877)	(3,138,948)	(37,500)	(6,753,325)
<b>Capital Assets, net</b>	<b>\$ 4,058,539</b>	<b>\$ 49,148</b>	<b>\$ -</b>	<b>\$ 4,107,687</b>
<b>Total Assets</b>	<b>\$ 5,434,736</b>	<b>\$ 420,121</b>	<b>\$ 135,052</b>	<b>\$ 5,989,909</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 5,368	\$ -	\$ 2,172	\$ 7,540
Accrued Wages Payable	11,176	979	-	12,155
Customer Deposits	59,230	76,073	-	135,303
<b>Total Liabilities</b>	<b>\$ 75,774</b>	<b>\$ 77,052</b>	<b>\$ 2,172</b>	<b>\$ 154,998</b>
<b>NET ASSETS</b>				
Invested in Capital Assets	\$ 4,058,539	\$ 49,148	\$ -	\$ 4,107,687
Unrestricted	1,300,423	293,921	132,880	1,727,224
<b>Total Net Assets</b>	<b>\$ 5,358,962</b>	<b>\$ 343,069</b>	<b>\$ 132,880</b>	<b>\$ 5,834,911</b>

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012

	Water/ Wastewater Utility	Electric Utility	Refuse Utility	Total
<b>OPERATING REVENUES</b>				
Utility Sales	\$ 1,580,499	\$ -	\$ 421,141	\$ 2,001,640
Service Fees	15,408	-	6,274	21,682
Reconnects and Other	26,785	-	6,677	33,462
Management Fees	-	865,068	-	865,068
	<u>1,622,692</u>	<u>865,068</u>	<u>434,092</u>	<u>2,921,852</u>
Total Operating Revenues	\$ 1,622,692	\$ 865,068	\$ 434,092	\$ 2,921,852
<b>OPERATING EXPENSES</b>				
Salaries and Related Benefits	\$ 398,286	\$ 41,020	\$ 53	\$ 439,359
Contracted Services	199,888	10,634	330,093	540,615
Professional Services	4,923	11,638	6,540	23,101
Maintenance	52,376	-	-	52,376
Operations	42,820	-	4,055	46,875
Supplies	398,630	5,760	90	404,480
Miscellaneous	23,532	2,624	2,480	28,636
Depreciation	242,527	-	-	242,527
	<u>1,362,982</u>	<u>71,676</u>	<u>343,311</u>	<u>1,777,969</u>
Total Operating Expenses	\$ 1,362,982	\$ 71,676	\$ 343,311	\$ 1,777,969
Operating Income (Loss)	\$ 259,710	\$ 793,392	\$ 90,781	\$ 1,143,883
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Earned	\$ 1,392	\$ 215	\$ 85	\$ 1,692
Grant Proceeds	30,257	-	-	30,257
	<u>31,649</u>	<u>215</u>	<u>85</u>	<u>31,949</u>
Total Nonoperating Revenues (Expenses)	\$ 31,649	\$ 215	\$ 85	\$ 31,949
Income (Loss) before Transfers	\$ 291,359	\$ 793,607	\$ 90,866	\$ 1,175,832
Operating Transfers (Out)	(508,437)	(675,200)	(83,995)	(1,267,632)
Change in Net Assets	\$ (217,078)	\$ 118,407	\$ 6,871	\$ (91,800)
Net Assets - October 1 (Beginning)	\$ 5,569,677	\$ 224,662	\$ 126,009	\$ 5,920,348
Prior Period Adjustments	6,363	-	-	6,363
Net Assets - October 1 (as Restated)	\$ 5,576,040	\$ 224,662	\$ 126,009	\$ 5,926,711
Net Assets - September 30 (Ending)	<u>\$ 5,358,962</u>	<u>\$ 343,069</u>	<u>\$ 132,880</u>	<u>\$ 5,834,911</u>

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012

	Water/ Wastewater Utility	Electric Utility	Refuse Utility	Total
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Management Contract	\$ -	\$ 865,068	\$ -	\$ 865,068
Cash Received from Customers	1,683,817	-	416,560	2,100,377
Cash Payments for Goods and Services	(816,940)	(51,433)	(377,186)	(1,245,559)
Cash Payments to Employees for Services	(313,457)	(33,355)	-	(346,812)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 553,420</u>	<u>\$ 780,280</u>	<u>\$ 39,374</u>	<u>\$ 1,373,074</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Operating Transfers In (Out)	\$ (508,437)	\$ (675,200)	\$ (83,995)	\$ (1,267,632)
Increase (Decrease) for Customer Deposits	5,385	-	-	5,385
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>\$ (503,052)</u>	<u>\$ (675,200)</u>	<u>\$ (83,995)</u>	<u>\$ (1,262,247)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Grant Proceeds	\$ 30,257	\$ -	\$ -	\$ 30,257
(Purchase) Retirement of Property or Equipment	(34,085)	-	-	(34,085)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>\$ (3,828)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,828)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest Received	\$ 1,392	\$ 215	\$ 85	\$ 1,692
Net Cash Provided by (Used for) Investing Activities	<u>\$ 1,392</u>	<u>\$ 215</u>	<u>\$ 85</u>	<u>\$ 1,692</u>
Net Increase (Decrease) in Cash	\$ 47,932	\$ 105,295	\$ (44,536)	\$ 108,691
Cash and Investments - October 1 (Beginning)	1,205,093	265,678	126,432	1,597,203
Cash and Investments - September 30 (Ending)	<u>\$ 1,253,025</u>	<u>\$ 370,973</u>	<u>\$ 81,896</u>	<u>\$ 1,705,894</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Operating Income (Loss)	\$ 259,710	\$ 793,392	\$ 90,781	\$ 1,143,883
<b>Adjustments to reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>				
Depreciation Expense	242,527	-	-	242,527
Changes in Assets and Liabilities:				
Receivables	61,125	-	(17,532)	43,593
Accounts Payable	(21,118)	(14,091)	(33,875)	(69,084)
Accrued Wages Payable	11,176	979	-	12,155
Net Cash Provided by (Used for) Operating Activities	<u>\$ 553,420</u>	<u>\$ 780,280</u>	<u>\$ 39,374</u>	<u>\$ 1,373,074</u>

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Farmersville, Texas (City), the primary government, and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The component units described below are each legally separate from the City, but are so intertwined with the City that they are, in substance, the same as the City. They are reported as part of and accountable to the City and presented discretely in the basic financial statements.

Farmersville Economic Development Corporation (4A), a not-for-profit organization created to finance economic development within the City of Farmersville. Financial data of the corporation is blended into the governmental funds of the City.

Farmersville Community Development Corporation (4B), a not-for-profit organization created to finance community development within the City of Farmersville. Financial data of the corporation is blended into the governmental funds of the City.

Basic Financial Statements

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. 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. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

The government-wide Statement of Net Assets reports all financial and capital resources to the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) external imposition by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposition by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various function and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds are combined in a single column on the fund financial statements.

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 revenues generated for the retirement of general obligation debt the City has issued. The fund includes transfers from proprietary funds for their contributions to the retirement of the outstanding debt.

The *Capital Projects Fund* accounts for the proceeds from the issuance of Series 2005 and Series 2006 Certificates of Obligation. The proceeds are being used to construct various capital improvements in the City. The proceeds, along with interest earnings, are to be used to complete the projects.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

The City reports the following major enterprise funds:

The *Water/Wastewater Utility Fund* accounts for the operation of the City's water and wastewater utility, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Farmersville.

The *Electric Utility Fund* accounts for the operation of the City's electric distribution activity. The City leases the distribution system to a third party provider and receives a management fee in return.

The *Refuse Fund* accounts for the operation of the City's sanitation program, a self-supporting activity, which provides for the collection and disposal of solid waste on a user charge basis to residents and businesses located in Farmersville.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, licenses, fees and permits, intergovernmental revenues, charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 20, 1989.

Cash and Investments

The City pools available cash from all funds for the purpose of increasing income through investment activities. Investments in U.S. government and agency securities are carried at fair value based on market prices. The City's investment in the Texas Local Government Pool (TexPool) and TexStar are carried at fair value based on the value of each participating dollar as provided by TexPool. Interest income, which includes changes in fair value, on investments is allocated to all funds.

For purposes of the basic financial statements, the City considers investments to be highly liquid short-term investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Cash and investments include the City's cash and investment pool deposit balances.



CITY OF FARMERSVILLE, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the 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 improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

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

Buildings, Structures and Improvements	20-50 years
Utility Plant	10-40 years
Equipment Including Vehicles	5-20 years
Infrastructure	15-100 years

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation), as of the date of the transfer.

Pension Plan

Full-time City employees are members of the Texas Municipal Retirement System (System). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of April 1 by the System's actuary.

Fund Balances

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

*Nonspendable fund balance* – represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

*Restricted fund balance* – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Restrictions may be changed or lifted only with the consent of resource providers.

*Committed fund balance* – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

cannot be used for any other purpose unless the City Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.

*Assigned fund balance* – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority. The City Council has delegated the authority to assign fund balances to the City Manager.

*Unassigned fund balance* – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Restricted					
Debt Retirement	\$ -	\$ 233,783	\$ -	\$ -	\$ 233,783
Capital Projects	-	-	1,722,675	-	1,722,675
Law Officer Training	-	-	-	644	644
Municipal Court Security	-	-	-	7,921	7,921
Municipal Court Texchnology	-	-	-	10,972	10,972
Library Donations`	-	-	-	1,557	1,557
Community Development	-	-	-	33,005	33,005
Child Safety	-	-	-	8,937	8,937
Committed					
School Resource Officer	-	-	-	5,720	5,720
Police Siezed Funds	-	-	-	4,924	4,924
Special Projects	-	-	-	133,819	133,819
Unassigned	1,002,080	-	-	-	1,002,080
Totals	1,002,080	233,783	1,722,675	207,499	3,166,037

Budgetary Principles

The City is required by law to adopt an annual budget on or before the 1<sup>st</sup> day of its fiscal year. The General and Debt Service governmental fund types have legally adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. Throughout the fiscal year, the budget was amended to add supplementary appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget. The City Manager has the authority to change individual budget line items within a department as long as the total department's appropriation amount is not changed.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and other major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the City to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The City levied taxes within the City at \$ .489546 to fund general operations and \$ .153355 for the payment of principal and interest on long term debt on property valued at \$ 146,736,174.

Revenue Recognition for Utility Funds

Revenue is recorded in the period in which services are provided. As such, revenue is recorded as billed to customer on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual result could differ from those estimates.

B. Cash and Investments

The City's funds are deposited and invested under the terms of a depository agreement. The agreement requires the depository to pledge approved securities in an amount significant to protect the City's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2012, the City's cash deposits appear to have been properly secured by FDIC insurance or by pledged collateral held by the City or the depository in the City's name.

The City's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The City appears to have been in substantial compliance with the requirements of the Act.

State statutes and local policy authorize the City to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

B. Cash and Investments (Continued)

City investments include deposits in external investment pools, such as TexSTAR and TexPool. All TexSTAR and TexPool investments are reported at share price (fair value) and are presented as cash and investments.

*Texas Local Government Investment Pool (TexPool)* has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, (Trust Company), which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

The fund is rated AAAm by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's. This rating as well as the operational policies and procedures allow the fund to comply with the requirements of the Public Funds Investment Act.

*Texas Short Term Asset Reserve Program (TexSTAR)* has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (Board). JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

The Board may establish separate Funds within TexSTAR from time to time. Participants choose the Funds in which their deposits are invested. Participants' assets in the Funds are represented by units of beneficial interest (units). The Board may issue an unlimited number of units in each Fund.

TexSTAR is rated AAAm by Standard & Poor's rating agency. This rating and the fund's operational settings allow the fund to comply with the requirement of the Public Funds Investment Act.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

B. Cash and Investments (Continued)

The following table categorizes the City's investment at September 30, 2012:

	<u>Credit Rating</u>	<u>Fair Value</u>
TexPool	AAAm	\$ 2,484,959
TexSTAR	AAAm	<u>1,729,094</u>
Total		<u>\$ 4,214,053</u>

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

C. Capital Assets

Capital asset activities for the year ended September 30, 2012, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
Nondepreciable Assets:				
Land	\$ 1,245,042	\$ -	\$ -	\$ 1,245,042
Construction in Progress	145,141	-	-	145,141
Total	<u>\$ 1,390,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,390,183</u>
Depreciable Assets:				
Buildings & Improvements	\$ 1,863,657	\$ -	\$ -	\$ 1,863,657
Equipment	1,734,449	103,682	90,332	1,747,799
Infrastructure	11,173,489	-	-	11,173,489
Total	<u>\$ 14,771,595</u>	<u>\$ 103,682</u>	<u>\$ 90,332</u>	<u>\$ 14,784,945</u>
Less Accumulated Depreciation				
Buildings & Improvements	\$ 1,236,361	\$ 39,138	\$ -	\$ 1,275,499
Equipment	1,091,027	130,285	90,332	1,130,980
Infrastructure	7,617,578	408,572	-	8,026,150
Total	<u>\$ 9,944,966</u>	<u>\$ 577,995</u>	<u>\$ 90,332</u>	<u>\$ 10,432,629</u>
Total Governmental Activities Capital Assets, net	<u>\$ 6,216,812</u>	<u>\$ (474,313)</u>	<u>\$ -</u>	<u>\$ 5,742,499</u>
<b>Business-type Activities</b>				
Nondepreciable Assets:				
Land	\$ 67,285	\$ -	\$ -	\$ 67,285
Construction in Progress	863,660	-	863,660	-
Total	<u>\$ 930,945</u>	<u>\$ -</u>	<u>\$ 863,660</u>	<u>\$ 67,285</u>
Depreciable Assets:				
Buildings & Improvements	\$ 9,542,908	\$ 897,746	\$ -	\$ 10,440,654
Equipment	353,073	-	-	353,073
Total	<u>\$ 9,895,981</u>	<u>\$ 897,746</u>	<u>\$ -</u>	<u>\$ 10,793,727</u>
Less Accumulated Depreciation				
Buildings & Improvements	\$ 6,159,227	\$ 241,027	\$ -	\$ 6,400,254
Equipment	351,571	1,500	-	353,071
Total	<u>\$ 6,510,798</u>	<u>\$ 242,527</u>	<u>\$ -</u>	<u>\$ 6,753,325</u>
Total Business-type Activities Capital Assets, net	<u>\$ 4,316,128</u>	<u>\$ 655,219</u>	<u>\$ 863,660</u>	<u>\$ 4,107,687</u>

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

C. Capital Assets (Continued)

Depreciation expenses were charged to functions/programs of the City as follows:

Governmental activities:	
Administration	\$ 1,666
Library and Civic Center	3,482
Police	31,975
Fire and Emergency	81,441
Public Works	433,355
Community Development	26,076
Total	<u>\$ 577,995</u>
Business-type activities:	
Water/Wastewater Utility	\$ 242,527
Total	<u>\$ 242,527</u>

D. Long-Term Obligations

The following is a summary of changes in long term obligations reported in the government-wide financial statements for the year ended September 30, 2012:

	Beginning Balances	Additions Increases	Reductions Decreases	Ending Balances	Due Within One Year
Governmental activities:					
Bonds	\$ 3,745,000	\$ 1,500,000	\$ 185,000	\$ 5,060,000	\$ 250,000
Unamortized Bond Premium	6,975	11,864	523	18,316	-
Capital Leases	361,089	-	339,446	21,643	10,572
Loans	-	582,122	-	582,122	51,442
Refunding Gain (Loss)	-	(11,137)	(1,191)	(9,946)	-
Totals	<u>\$ 4,113,064</u>	<u>\$ 2,082,849</u>	<u>\$ 523,778</u>	<u>\$ 5,672,135</u>	<u>\$ 312,014</u>

Governmental Activities

Bonds

At year end, the City had outstanding the following obligation bonds for acquisition and construction of capital improvements in the City. General obligation debt has been issued for general government activities. As of September 30, 2012, the City has no proprietary activity long-term obligations.

General obligations bonds are direct obligations and pledge the full faith and credit of the City.

Description	Interest Rate	Original Issue	Outstanding
City of Farmersville, Texas Tax and Utility System (Limited Pledge) Revenue Certificate of Obligation, Series 2005	4.10%	\$ 1,020,000	\$ 775,000
City of Farmersville, Texas Tax and Utility System (Limited Pledge) Revenue Certificates of Obligation, Series 2005	4.12%	3,500,000	2,785,000
City of Farmersville, Texas General Obligation Bonds, Series 2012	2.12%	1,500,000	1,500,000
Total			<u>\$ 5,060,000</u>

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

D. Long-Term Obligations (Continued)

Maturity requirements of the general obligation debt listed above are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 250,000	\$ 183,705	\$ 433,705
2014	260,000	170,647	430,647
2015	265,000	160,035	425,035
2016	280,000	149,017	429,017
2017	290,000	138,139	428,139
2018-2022	1,640,000	520,413	2,160,413
2023-2027	1,590,000	192,847	1,782,847
2028-2032	485,000	38,048	523,048
Totals	<u>\$ 5,060,000</u>	<u>\$ 1,552,851</u>	<u>\$ 6,612,851</u>

Compliance with Debt Covenants

There are various limitations and restrictions contained in the City's bond obligations. The City believes they are in compliance with all significant limitations and restrictions.

Capital Leases

The City is obligated for various payments under the following lease agreements. The lease agreements qualify as capital leases for accounting purposes as defined under Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, and therefore have been recorded at the present value of future minimum lease payments at the date of inception of the lease. The leases relate to the following:

<u>Description/Payee</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Original Lease Value</u>
First Bankers Corp. – Pumper Truck	09/25/04	4.72%	10 years	\$ 101,020

Future minimum lease payments to be made under these lease agreements are as follows:

<u>Year Ending September 30</u>	<u>Requirements</u>
2013	\$ 11,571
2014	<u>11,571</u>
Total Requirements	\$ 23,142
Less Amount Representing Interest	<u>(1,499)</u>
Present Value of Minimum Lease Payments	<u>\$ 21,643</u>



CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

D. Long-Term Obligations (Continued)

Loans

The City issued debt classified as loans during the year. The debt is for various terms not exceeding 10 years. The following identifies the items classified as loans that are outstanding at September 30, 2012:

Description	Interest Rate	Maturity Date	Original Amount	Outstanding Balance
Public Property Finance Contractual Obligations, Series 2012	1.84%	2/15/22	\$ 265,000	\$ 265,000
Public Property Finance Act Contract No 5944	3.89%	12/1/17	317,122	<u>317,122</u>
Total				<u>\$ 582,122</u>

Maturity requirements on the loan debt listed above are as follows:

Year Ending September 30	Principal	Interest	Total Requirements
2013	\$ 51,442	\$ 13,456	\$ 64,898
2014	49,160	15,322	64,482
2015	81,072	13,148	94,220
2016	83,059	10,636	93,695
2017	85,123	8,047	93,170
2018-2022	232,266	10,934	243,200
Totals	<u>\$ 582,122</u>	<u>\$ 71,543</u>	<u>\$ 653,665</u>

E. Commitments and Contingencies

Litigation – The City does not appear to be involved in any litigation at September 30, 2012.

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

Electric Utility

Effective October 1, 2011, the City executed an operating and management agreement with Sharyland Utilities, L.P. (Sharyland) to provide for the operation of the City-owned electrical distribution system. Per the agreement, all aspects of the operation and management of the City's electrical distribution system will be the responsibility of Sharyland. For the rights to distribute electrical utilities, Sharyland pays the City an annual base payment split quarterly among the City's fiscal year. This payment is in lieu of any other payments to the City. The five year agreement, set to expire December 31, 2016, provides for increases and decreases based on the net revenues of the system.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

F. Pension Plan

Plan Description

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

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

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

	Plan Year 2012	Plan Year 2011
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60 / 5, 0 / 25	60 / 5, 0 / 20
Update Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

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

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

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

F. Pension Plan (Continued)

City of Farmersville Schedule of Actuarial Liabilities and Funding Progress			
	12/31/2011	12/31/2010	12/31/2009
Actuarial Valuation Date			
Actuarial Value of Assets	\$ 3,080,459	\$ 3,080,459	\$ 2,111,629
Actuarial Accrued Liability	\$ 3,974,882	\$ 3,974,882	\$ 3,185,268
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$ 894,423	\$ 894,423	\$ 1,073,639
Percentage Funded	77.5%	77.5%	66.3%
Annual Covered Payroll	\$ 986,324	\$ 906,413	\$ 965,419
UAAL as a Percentage of Covered Payroll	105.7%	105.7%	119.1%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:	\$ 103,427	\$ 100,654	\$ 97,333
Percent of APC Contributed	100.0%	100.0%	100.0%
NPO at the end of the month	\$ -	\$ -	\$ -

General System-wide Actuarial Assumptions

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	27.1 Years - Closed Period
Asset Valuation Method	10-year Smoothed Market
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	2.1%

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

G. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to provide coverage of their associated risks. There has been no significant change in insurance coverage from the previous year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

H. Interfund Balances and Activities

Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2012 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water/Wastewater Utility	Debt Service Fund	\$ 113,912	Debt Retirement
Water/Wastewater Utility	General Fund	394,525	Operating Funds
Electric Utility	General Fund	675,200	Operating Funds
Refuse Utility	General Fund	83,995	Operating Funds
General Fund	Sidewalk Grant Fund	12,500	Grant Match
	Total	<u>\$ 1,280,132</u>	

Interfund Receivables and Payables

The composition of interfund receivables and payables as of September 30, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service Fund	Capital Projects Fund	\$ 4,071

I. Subsequent Events

The District's management has evaluated subsequent events through March 7, 2013, the date which the financial statements were available for issue.

J. Prior Period Adjustments

The following adjustments have been made to correct errors identified in the prior year financial statements. The beginning equity balances have been adjusted to reflect the identified amounts.

Government wide Financial Statements

An error in the recognition of revenue for fines occurred when the allowance for uncollectible amounts was calculated. The allowance was understated increasing revenue recognized.

Decreased net assets \$ 238,240

The Economic Development (4A) and Community Development (4B) Corporations were presented as blended component units. The component units have been reclassified to a discretely presentation.

Decrease net assets \$ 882,925

The City's internal fund accounting classified the Storm Water Public Works Fund as part of the Water and Wastewater Enterprise Fund. A review of the activity of this fund determined a governmental fund type presentation was appropriate for the fund.

Decrease governmental activities net assets \$ 6,363  
Increase business type activities net assets \$ 6,363

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

J. Prior Period Adjustments (Continued)

Fund Financial Statements

General Fund fund balance decreased \$ 6,363 due to the reclassification of the Storm Water Public Works Fund.

Water/Wastewater Fund net asset balance increased \$ 6,363 due to the reclassification of the Storm Water Public Works Fund.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FARMERSVILLE, TEXAS  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Amended	Actual	
<b>REVENUES</b>				
Taxes and Franchise Fees	\$ 1,055,514	\$ 1,283,120	\$ 1,279,950	\$ (3,170)
Licenses and Permits	24,200	32,250	25,184	(7,066)
Fines	85,000	85,587	101,334	15,747
Service Fees	107,500	112,760	109,327	(3,433)
Miscellaneous	121,476	79,568	66,245	(13,323)
Interest Income	1,800	1,000	1,085	85
InterGovernmental Support	45,000	155,324	159,411	4,087
Total Revenues	\$ 1,440,490	\$ 1,749,609	\$ 1,742,536	\$ (7,073)
<b>EXPENDITURES</b>				
Current:				
Mayor and City Council	\$ 9,240	\$ 7,847	\$ 7,702	\$ 145
Administration	514,154	563,327	468,224	95,103
Municipal Court	95,994	101,045	99,030	2,015
Library and Civic Center	124,820	131,862	128,740	3,122
Police	763,768	931,249	888,956	42,293
Fire and Emergency Medical Service	197,052	265,558	245,324	20,234
Public Works	489,774	775,666	701,066	74,600
Debt Service	-	68,393	68,393	-
Total Expenditures	\$ 2,194,802	\$ 2,844,947	\$ 2,607,435	\$ 237,512
<b>OTHER RESOURCES (USES)</b>				
Loan Proceeds	\$ -	\$ -	\$ 317,122	\$ 317,122
Other Uses & Refunding	-	-	(299,977)	(299,977)
Sale of Capital Asset	-	6,800	6,820	20
Transfers In	1,021,892	1,230,330	1,153,720	(76,610)
Transfers Out	-	-	(12,500)	(12,500)
Total Other Resources (Uses)	\$ 1,021,892	\$ 1,237,130	\$ 1,165,185	\$ (71,945)
<b>Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses</b>				
	\$ 267,580	\$ 141,792	\$ 300,286	\$ 158,494
<b>Fund Balance - October 1 (Beginning)</b>				
Prior Period Adjustments	\$ 708,157	\$ 708,157	\$ 708,157	\$ -
	-	-	(6,363)	(6,363)
<b>Fund Balance - October 1 (as Restated)</b>				
	\$ 708,157	\$ 708,157	\$ 701,794	\$ (6,363)
<b>Fund Balance - September 30 (Ending)</b>				
	\$ 975,737	\$ 849,949	\$ 1,002,080	\$ 152,131

CITY OF FARMERSVILLE, TEXAS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 YEAR ENDED SEPTEMBER 30, 2012

(Unaudited)

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Funded Ratio</i>	<i>Unfunded AAL (UAAL)</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2007	2,017,154	2,869,625	70.3%	852,471	898,323	94.9%
12/31/2008	2,148,194	3,164,598	67.9%	1,016,404	1,050,868	96.7%
12/31/2009	2,111,629	3,158,268	66.3%	1,073,639	901,232	119.1%
12/31/2010	3,080,459	3,974,882	77.5%	894,423	845,967	105.7%
12/31/2011	3,106,042	4,016,251	77.3%	910,209	986,324	92.28%



OTHER SUPPLEMENTARY INFORMATION  
COMPONENT UNIT  
FINANCIAL STATEMENTS

CITY OF FARMERSVILLE, TEXAS  
 COMPONENT UNITS  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2012

	4A Economic Development	4B Community Development	Total
<b>ASSETS</b>			
Cash and Investments	\$ 717,161	\$ 237,269	\$ 954,430
Sales Tax Receivable	28,165	28,165	56,330
Capital Assets - Non Depreciable	<u>-</u>	<u>182,820</u>	<u>182,820</u>
Total Assets	<u>\$ 745,326</u>	<u>\$ 448,254</u>	<u>\$ 1,193,580</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 13,462	\$ -	\$ 13,462
Notes Payable			
Due within one year	-	10,698	10,698
Due in more than one year	<u>-</u>	<u>137,564</u>	<u>137,564</u>
Total Liabilities	<u>\$ 13,462</u>	<u>\$ 148,262</u>	<u>\$ 161,724</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, not of related debt	\$ -	\$ 34,558	\$ 34,558
Restricted	<u>731,864</u>	<u>265,434</u>	<u>997,298</u>
Total Net Assets	<u><u>\$ 731,864</u></u>	<u><u>\$ 299,992</u></u>	<u><u>\$ 1,031,856</u></u>

See accompanying notes to the financial statements – component units.

CITY OF FARMERSVILLE, TEXAS  
 COMPONENT UNIT  
 STATEMENT OF ACTIVITIES  
 YEAR ENDED SEPTEMBER 30, 2012

	4A Economic Development	4B Community Development	Total
<b>GENERAL REVENUES</b>			
Sales Tax	\$ 242,485	\$ 242,485	\$ 484,970
Investment Earnings	2,104	233	2,337
<b>Total Operating Revenues</b>	<b>\$ 244,589</b>	<b>\$ 242,718</b>	<b>\$ 487,307</b>
<b>EXPENSES</b>			
Community Support	\$ 9,681	\$ 16,664	\$ 26,345
Professional Services	100,364	3,308	103,672
Grants - Projects	74,423	56,047	130,470
Marketing	10,379	14,965	25,344
Main Street Support	-	37,153	37,153
Debt Service	-	1,427	1,427
Operations	866	13,098	13,964
<b>Total Expenses</b>	<b>\$ 195,713</b>	<b>\$ 142,662</b>	<b>\$ 338,375</b>
Change in Net Assets	\$ 48,876	\$ 100,056	\$ 148,932
Net Assets - October 1 (Beginning)	682,988	199,936	882,924
Net Assets - September 30 (Ending)	<b>\$ 731,864</b>	<b>\$ 299,992</b>	<b>\$ 1,031,856</b>

See accompanying notes to the financial statements – component units.

CITY OF FARMERSVILLE, TEXAS  
COMPONENT UNITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

A. FINANCIAL REPORTING ENTITY

The City of Farmersville is the primary government and reports the following entities in its financial statements. The two entities are considered component units of the City and are presented discretely in the City financial statements.

The *Farmersville Economic Development Corporation (4A Corporation)* was established to oversee economic development in the City of Farmersville, Texas (City). The 4A Corporation, chartered in the State of Texas, is under the direction of a board of directors comprised of City residents. The Board has all legal powers to control the operations and activation of the 4A Corporation.

The 4A Corporation's primary source of revenue consists of a local sales tax approved by the voters in the City. This one half cent sales tax is collected by the State of Texas and remitted to the City monthly. The City forwards the funds to the 4A Corporation.

The 4A Corporation's purpose is to direct and assist the City in growing economically. Many types of activities are considered and carried out in this regard.

The *Farmersville Community Development Corporation (4B Corporation)* was established to oversee economic development in the City of Farmersville, Texas (City). The 4B Corporation, chartered in the State of Texas, is under the direction of a board of directors comprised of City residents. The Board has all legal powers to control the operations and activation of the 4B Corporation.

The 4B Corporation's primary source of revenue consists of a local sales tax approved by the voters in the City. This one half cent sales tax is collected by the State of Texas and remitted to the City monthly. The City forwards the funds to the 4B Corporation.

The 4B Corporation's purpose is to direct and assist the City in quality of life issues and overall community development. Many activities and programs have been implemented to further these purposes.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting.

Revenue Recognition

All public support and revenue are considered to be available for unrestricted use unless specifically restricted by the donor.

Cash and Investments

For the purpose of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with a maturity of ninety days or less.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF FARMERSVILLE, TEXAS  
 COMPONENT UNITS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The 4A and 4B Corporations operate under Section 501(c) (3) of the Internal Revenue Code and are generally exempt from federal, state, and local income taxes. Accordingly, no provision for income taxes is included in the financial statements. The 4A and 4B Corporations are not classified as private foundations.

Budgets

Each Corporation develops an annual budget coordinating the projected activities for the year. These budgets are forwarded to the City with the Council approving the budget for the year.

C. CASH

The Corporation's cash deposits are placed in Independent Bank - Farmersville and a government pool, TexPool. All balances are insured with FDIC depository insurance or supported by government securities.

D. NOTES PAYABLE

The 4B Corporation executed a note agreement with Independent Bank – Farmersville to purchase a parcel of land for use in expanding community space within the City. The note is for 10 years and requires monthly payments of \$ 1,666.06 comprising both principal and interest. The note incurs interest of 5.5% on the unpaid balance and will fully mature on May 31, 2022.

The following presents the maturity requirement on the note:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 10,698	\$ 9,294	\$ 19,992
2014	12,742	7,251	19,993
2015	13,461	6,532	19,993
2016	14,220	5,772	19,992
2017	15,023	4,970	19,993
2018-2022	82,118	11,181	93,299
Totals	<u>\$ 148,262</u>	<u>\$ 45,000</u>	<u>\$ 193,262</u>