

CITY OF OVILLA, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2012

CITY OF OVILLA, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2012

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Yeldell, Wilson & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS (A PROFESSIONAL CORPORATION)
Members of American Institute of Certified Public Accountants / Members of Private Companies Practice Section

Greer Yeldell, CPA / Glen D. Wilson, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Ovilla, Texas

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

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 44 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.

Honorable Mayor and City Council
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ovilla, Texas' financial statements as a whole. The combining and individual fund statements and schedules and supplementary financial data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules and supplementary financial data 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.



Yeldell, Wilson & Co., P.C.
Certified Public Accountants

January 31, 2013

CITY OF OVILLA, TEXAS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The liabilities of the City exceeded its assets at the close of the most recent fiscal year by \$1,099,204.
- The City's total net assets increased by \$344,358.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,673,545. Over 70% of this total amount, \$1,187,862 is unassigned and available for use within the City's designation and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,187,862 or 54% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, cultural and recreational, solid waste, economic development, and municipal development. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself, but also a legally separate economic development corporation and municipal development district which function for all practical purposes as part of the City, and therefore has been included as blended component units as an integral part of the primary government.

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund and Debt Service fund, both of which are considered to be major funds. Data from the other five funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 14-16 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund since it is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental funds. Combining and individual statements and schedules can be found on pages 43-51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by \$1,099,204 as of September 30, 2012.

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

CITY OF OVILLA'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,066,332	\$ 2,113,758	\$ 1,404,293	\$ 1,418,276	\$ 3,470,625	\$ 3,532,034
Capital assets	2,006,416	2,112,138	3,000,630	3,181,391	5,007,046	5,293,529
Total assets	<u>4,072,748</u>	<u>4,225,896</u>	<u>4,404,923</u>	<u>4,599,667</u>	<u>8,477,671</u>	<u>8,825,563</u>
Long term liabilities	5,722,818	6,072,424	1,405,533	1,483,878	7,128,351	7,556,302
Other liabilities	151,700	326,554	98,416	187,861	250,116	514,415
Total liabilities	<u>5,874,518</u>	<u>6,398,978</u>	<u>1,503,949</u>	<u>1,671,739</u>	<u>7,378,467</u>	<u>8,070,717</u>
Net assets:						
Invested in capital assets, net of related debt	(3,675,509)	(3,897,667)	1,742,787	1,843,063	(1,932,722)	(2,054,604)
Restricted	485,683	416,383	119,748	118,587	605,431	534,970
Unrestricted	1,388,056	1,308,202	1,038,439	966,278	2,426,495	2,274,480
Total net assets (deficit)	<u>\$ (1,801,770)</u>	<u>\$ (2,173,082)</u>	<u>\$ 2,900,974</u>	<u>\$ 2,927,928</u>	<u>\$ 1,099,204</u>	<u>\$ 754,846</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

An additional portion of the City's net assets represents resources that are subject to external restriction on how they may be used.

As noted on page 9, the City's net assets invested in capital assets increased as a result of the purchase of machinery and equipment, while long-term debt decreased due to scheduled debt payments being made.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2012. Governmental activities increased the City's net assets by \$371,312 and business-type activities decreased the City's net assets by \$26,954.

CITY OF OVILLA'S CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 455,013	\$ 483,303	\$ 1,172,301	\$ 1,421,562	\$ 1,627,314	\$ 1,904,865
Operating grants and contributions	26,560	31,489	-	-	26,560	31,489
Capital grants and contributions	-	247,622	-	-	-	247,622
General revenues:						
Property tax	1,685,846	1,747,894	-	-	1,685,846	1,747,894
Sales tax	305,927	254,606	-	-	305,927	254,606
Franchise tax	151,591	152,286	-	-	151,591	152,286
Investment earnings	7,193	29,422	3,318	9,860	10,511	39,282
Gain on sale of capital assets	-	18,669	-	-	-	18,669
Miscellaneous	106,324	112,227	-	-	106,324	112,227
Total revenues	<u>2,738,454</u>	<u>3,077,518</u>	<u>1,175,619</u>	<u>1,431,422</u>	<u>3,914,073</u>	<u>4,508,940</u>
Expenses:						
General government	359,075	369,511	-	-	359,075	369,511
Public safety	1,434,719	1,313,940	-	-	1,434,719	1,313,940
Streets	291,644	277,689	-	-	291,644	277,689
Cultural and recreational	16,324	19,769	-	-	16,324	19,769
Solid waste	196,493	192,113	-	-	196,493	192,113
Economic development	7,394	21,233	-	-	7,394	21,233
Municipal development	1,650	1,103	-	-	1,650	1,103
Interest on long-term debt	197,043	322,439	-	-	197,043	322,439
Water and sewer	-	-	1,065,373	1,113,968	1,065,373	1,113,968
Total expenses	<u>2,504,342</u>	<u>2,517,797</u>	<u>1,065,373</u>	<u>1,113,968</u>	<u>3,569,715</u>	<u>3,631,765</u>
Increase in net assets before transfers	234,112	559,721	110,246	317,454	344,358	877,175
Transfers	137,200	53,237	(137,200)	(53,237)	-	-
Increase in net asset	371,312	612,958	(26,954)	264,217	344,358	877,175
Net assets - beginning	(2,173,082)	(2,786,040)	2,927,928	2,663,711	754,846	(122,329)
Net assets - ending	<u>\$ (1,801,770)</u>	<u>\$ (2,173,082)</u>	<u>\$ 2,900,974</u>	<u>\$ 2,927,928</u>	<u>\$ 1,099,204</u>	<u>\$ 754,846</u>

- The majority of the decrease in revenue resulted from a decrease in capital grants of about \$248,000 and an decrease in utility billing revenue of about \$249,000.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 combined ending fund balances of \$1,673,545. Approximately 71% of this total amount \$1,187,862 constitutes unassigned fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for (1) public safety in the amount of \$16,465, (2) cultural and recreational in the amount of \$27,486, (3) economic development in the amount of \$249,770, (4) municipal development in the amount of \$45,028, and (5) debt service in the amount of \$146,934.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,187,862. Unassigned fund balance represents 54% of total general fund expenditures.

The fund balance of the City's general fund increased \$105,190 during the current fiscal year.

The debt service fund has a total fund balance of \$146,934. The net decrease in fund balance during the current year in the debt service fund was \$25,938.

Proprietary Funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$1,038,439. Net assets decreased in 2012 by \$26,954. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights. General fund actual revenues of \$2,167,693 exceeded budgeted revenues of \$2,132,443 by \$35,250.

Budgeted general fund expenditures of \$2,400,486 exceeded actual expenditures of \$2,164,680. This \$235,806 positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

The main components of the difference between original budget and final amended budget can be briefly summarized as follows:

- \$43,000 increase in sales tax revenue
- \$87,000 increase in fire protection expenditures
- \$23,000 increase in police protection expenditures
- \$85,000 increase in street expenditures

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012 amounts to \$5,007,046 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

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

- Machinery and equipment additions of approximately \$146,000.
- Infrastructure improvements of approximately \$9,500.

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 92,685	\$ 92,685	\$ 86,700	\$ 86,700	\$ 179,385	\$ 179,385
Buildings	185,029	195,623	64,450	66,781	249,479	262,404
Improvements	-	-	2,734,201	2,897,589	2,734,201	2,897,589
Machinery and equipment	827,313	896,979	115,279	130,321	942,592	1,027,300
Infrastructure	901,389	926,851	-	-	901,389	926,851
Total	<u>\$ 2,006,416</u>	<u>\$ 2,112,138</u>	<u>\$ 3,000,630</u>	<u>\$ 3,181,391</u>	<u>\$ 5,007,046</u>	<u>\$ 5,293,529</u>

Additional information on the City of Ovilla's capital assets can be found in note 3 on pages 29-30 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$6,930,000, all of which comprises bonded debt backed by the full faith and credit of the government.

Outstanding Debt at Year End Bonds Payable

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation refunding	\$ 5,569,830	\$ 5,891,321	\$ 1,360,170	\$ 1,438,679	\$ 6,930,000	\$ 7,330,000
Total	<u>\$ 5,569,830</u>	<u>\$ 5,891,321</u>	<u>\$ 1,360,170</u>	<u>\$ 1,438,679</u>	<u>\$ 6,930,000</u>	<u>\$ 7,330,000</u>

The City's General Obligation Refunding Bonds ratings are listed below.

General Obligation Refunding	<u>Standard's & Poor's</u> AA+
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Additional information on the City of Ovilla's long term-debt can be found in note 3 on pages 31-32 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

FY 2011-2012 the City continued its small increase in home starts. There were 6 new home starts in 2012, two more than 2011. Although Ad Valorem tax valuations dropped, Sales Tax and Franchise Fees continued their steady rise. The Enterprise Fund revenue increased along with the drought conditions in North Texas. Although the regions reservoirs collected much needed rain, the City never came out of the Stage 1 drought declared by the City of Dallas. In FY 2011-2012, the City completed several capital improvement projects. Ellis County chip-n-sealed 4 miles of city streets and should complete the rehabilitation of Red Oak Creek Road before the paving season ends. The Public Works Crews repaired several stretches of asphalt that had failed on Cockrell Hill Rd., Shadowwood Trail, and Silverwood, as well as, a stretch on Joe Wilson Road and enhancements to the City Hall Police Station parking lots. All of the Public Works Crew labor was facilitated by the use of the capital items purchased in 2012. The Public Works received a newer larger roller/packer and a considerably better used dump truck. Our ACO Officer also received an animal control vehicle purchased through an online auction. All of these purchases were completed well below market prices and resulted in the city being able to upgrade its fleet. The Council funded the preparation of a new city map as the City had not updated its boundary map in several years and needed an approved annexation map. The Council also approved the use of fund balance to replace two of the City's servers and combine them into one larger server. The result should produce future savings and increase our ability to do more IT functions in house. Council also approved the use of undesignated fund balance to purchase a new police pickup and a new backhoe.

The Council agreed in the FY 2011-2012 budget, to extend one of the daytime fire fighters to 24 hours, which assured someone would be at the station 24 hours a day, 7 days a week. The increased staffing provided much needed stability and assistance to the volunteers who staff the station at night and on weekends.

The challenge for FY 2012-2013 is to continue to provide services on a lean budget. The budget turned in by all departments included a separate list of capital items including request for additional manpower. The only additional manpower honored was to extend a second daytime fire fighter to 24 hours with the use of an additional \$35,000 contribution from ESD #2. For the most part, the emphasis for FY 2012-2013 remains on the streets. In 2011-2012, the City tried a new idea in that they began to chip-n-seal a layer over the asphalt streets to try to extend the life of the asphalt streets. The CIP Committee will begin this year to re-evaluate the CIP list to utilize this technique and hopefully extend the amount of streets that can receive maintenance each year.

The Budget calls for adopting the Effective M&O rate and an overall rate which includes a slight tax increase of .0037. The recommended rate is made possible by the City continuing to make voluntary contributions to the Debt Service from Water/Sewer Utilities which reduces the City's Interest and Sinking (I&S) rate. However, even with the recommended tax rate the projected revenue is still below the previous year's tax revenue. The City received slight increases from their providers for wholesale water, sewer treatment and solid waste collection, but elected to not pass the increases on to the residents in the utility rates.

For FY 2012-2013 Ovilla is a leaner and more efficient City. Emphasis remains on streets. From year to year, the components of the budget change but the overall goal is constant: the City of Ovilla, with an emphasis on service, will promote, encourage, guide, provide, and maintain a quality environment in which Ovilla citizens can work, play, learn, and live.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 105 South Cockrell Hill Rd., Ovilla, Texas 75154.

CITY OF OVILLA, TEXAS
STATEMENT OF NET ASSETS
September 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,713,025	\$ 846,952	\$ 2,559,977
Investments	4,648	1,144	5,792
Receivables (net of allowance for uncollectibles)	101,676	219,167	320,843
Due from other governments	1,730	-	1,730
Inventories	-	20,787	20,787
Deferred charges	245,253	65,517	310,770
Restricted assets:			
Cash and cash equivalents	-	245,876	245,876
Investments	-	4,850	4,850
Capital assets:			
Non-depreciable	92,685	86,700	179,385
Depreciable (net of accumulated depreciation)	1,913,731	2,913,930	4,827,661
Total assets	<u>4,072,748</u>	<u>4,404,923</u>	<u>8,477,671</u>
LIABILITIES			
Accounts payable and other current liabilities	102,931	49,508	152,439
Accrued payroll payable	17,771	6,122	23,893
Accrued interest payable	22,648	5,531	28,179
Due to other governments	8,350	-	8,350
Customer deposits payable	-	37,255	37,255
Noncurrent liabilities:			
Due within one year	362,384	95,221	457,605
Due in more than one year	5,360,434	1,310,312	6,670,746
Total liabilities	<u>5,874,518</u>	<u>1,503,949</u>	<u>7,378,467</u>
NET ASSETS			
Invested in capital assets, net of related debt	(3,675,509)	1,742,787	(1,932,722)
Restricted for:			
Public safety	16,465	-	16,465
Cultural and recreational	27,486	-	27,486
Economic development	249,770	-	249,770
Municipal development	45,028	-	45,028
Debt service	146,934	-	146,934
Infrastructure improvements	-	119,748	119,748
Unrestricted	1,388,056	1,038,439	2,426,495
Total net assets	<u>\$ (1,801,770)</u>	<u>\$ 2,900,974</u>	<u>\$ 1,099,204</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 359,075	\$ 35,640	\$ -	\$ (323,435)	\$ -	\$ (323,435)
Public safety	1,434,719	208,840	26,560	(1,199,319)	-	(1,199,319)
Streets	291,644	-	-	(291,644)	-	(291,644)
Cultural and recreational	16,324	1,673	-	(14,651)	-	(14,651)
Solid waste	196,493	208,860	-	12,367	-	12,367
Economic development	7,394	-	-	(7,394)	-	(7,394)
Municipal development	1,650	-	-	(1,650)	-	(1,650)
Interest on long-term debt	197,043	-	-	(197,043)	-	(197,043)
Total governmental activities	<u>2,504,342</u>	<u>455,013</u>	<u>26,560</u>	<u>(2,022,769)</u>	<u>-</u>	<u>(2,022,769)</u>
Business-type activities:						
Water and sewer	1,065,373	1,172,301	-	-	106,928	106,928
Total business-type activities	<u>1,065,373</u>	<u>1,172,301</u>	<u>-</u>	<u>-</u>	<u>106,928</u>	<u>106,928</u>
Total primary government	<u>\$3,569,715</u>	<u>\$1,627,314</u>	<u>\$ 26,560</u>	<u>(2,022,769)</u>	<u>106,928</u>	<u>(1,915,841)</u>
General revenues:						
Property tax				1,685,846	-	1,685,846
Sales tax				305,927	-	305,927
Franchise tax				151,591	-	151,591
Investment earnings				7,193	3,318	10,511
Miscellaneous				106,324	-	106,324
Transfers				137,200	(137,200)	-
Total general revenues				<u>2,394,081</u>	<u>(133,882)</u>	<u>2,260,199</u>
Change in net assets				371,312	(26,954)	344,358
Net assets - beginning				(2,173,082)	2,927,928	754,846
Net assets - ending				<u>\$ (1,801,770)</u>	<u>\$2,900,974</u>	<u>\$1,099,204</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,258,837	\$ 145,778	\$ 308,410	\$ 1,713,025
Investments	4,648	-	-	4,648
Receivables (net of allowance for uncollectibles)	92,412	5,900	3,364	101,676
Due from other governments	1,730	-	-	1,730
Due from other funds	-	-	14,515	14,515
Total assets	\$ 1,357,627	\$ 151,678	\$ 326,289	\$ 1,835,594
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 102,931	\$ -	\$ -	\$ 102,931
Accrued payroll payable	17,771	-	-	17,771
Due to other funds	14,515	-	-	14,515
Due to other governments	8,350	-	-	8,350
Deferred revenue	13,738	4,744	-	18,482
Total liabilities	157,305	4,744	-	162,049
Fund Balances:				
Restricted for:				
Public safety	7,489	-	8,976	16,465
Cultural and recreational	4,971	-	22,515	27,486
Economic development	-	-	249,770	249,770
Municipal development	-	-	45,028	45,028
Debt service	-	146,934	-	146,934
Unassigned	1,187,862	-	-	1,187,862
Total fund balances	1,200,322	146,934	326,289	1,673,545
Total liabilities and fund balances	\$ 1,357,627	\$ 151,678	\$ 326,289	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,006,416
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(22,648)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	18,482
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	
Due within one year	\$ (362,384)
Due in more than one year	(5,360,434)
Deferred charges	245,253
	(5,477,565)
Net assets of governmental activities	\$ (1,801,770)

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 1,253,786	\$ 435,447	\$ -	\$ 1,689,233
Sales	201,432	-	104,495	305,927
Franchise	151,591	-	-	151,591
Licenses and permits	30,184	-	-	30,184
Fines and forfeitures	58,844	-	-	58,844
Charges for current services	364,312	-	-	364,312
Revenues from use of money and property	5,591	929	673	7,193
Other	101,700	4,623	1,673	107,996
Intergovernmental	28,226	-	1,462	29,688
Contributions and donations	-	-	19,903	19,903
Total revenues	<u>2,195,666</u>	<u>440,999</u>	<u>128,206</u>	<u>2,764,871</u>
EXPENDITURES				
Current:				
General government	358,218	-	-	358,218
Public safety	1,259,383	-	23,539	1,282,922
Streets	340,034	-	-	340,034
Cultural and recreational	21,993	-	3,000	24,993
Solid waste	196,493	-	-	196,493
Economic development	-	-	7,394	7,394
Municipal development	-	-	1,650	1,650
Debt service:				
Principal retirement	11,597	321,491	-	333,088
Interest and fiscal charges	494	187,910	-	188,404
Total expenditures	<u>2,188,212</u>	<u>509,401</u>	<u>35,583</u>	<u>2,733,196</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,454</u>	<u>(68,402)</u>	<u>92,623</u>	<u>31,675</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	97,736	42,464	-	140,200
Transfers out	-	-	(3,000)	(3,000)
Total other financing sources (uses)	<u>97,736</u>	<u>42,464</u>	<u>(3,000)</u>	<u>137,200</u>
Net change in fund balances	105,190	(25,938)	89,623	168,875
Fund balances at beginning of year	<u>1,095,132</u>	<u>172,872</u>	<u>236,666</u>	<u>1,504,670</u>
Fund balances at end of year	<u>\$ 1,200,322</u>	<u>\$ 146,934</u>	<u>\$ 326,289</u>	<u>\$ 1,673,545</u>

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balance-total governmental funds (page 15)	\$	168,875
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.		155,388
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		(261,110)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond principal repayments	\$	321,491
Amortization of deferred charges		(15,834)
Amortization of bond discount		(773)
Amortization of bond premium		7,162
Capital lease obligations retired		11,597
		323,643
Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net assets compensated absences are expensed as they are accrued. Change in the compensated absences liability.		10,129
Some revenues will not be collected for several months after the city's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on Fund statements.		(26,417)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest.		804
Change in net assets of governmental activities (page 13)	\$	371,312

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2012

	Business-type Activities - Enterprise (Water and Sewer) Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 846,952
Investments	1,144
Receivables (net of allowance for uncollectibles)	219,167
Inventory	20,787
Total current assets	1,088,050
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	245,876
Investments	4,850
Total restricted assets	250,726
Deferred charges	65,517
Capital assets (net, where applicable of accumulated depreciation)	3,000,630
Total noncurrent assets	3,316,873
Total assets	4,404,923
LIABILITIES	
Current liabilities:	
Accounts payable	49,508
Accrued payroll payable	6,122
Accrued interest payable	5,531
Compensated absences	16,712
Customer deposits payable	37,255
Bonds payable	78,509
Total current liabilities	193,637
Noncurrent liabilities:	
Bonds payable	1,310,312
Total noncurrent liabilities	1,310,312
Total liabilities	1,503,949
NET ASSETS	
Invested in capital assets, net of related debt	1,742,787
Restricted for infrastructure improvements	119,748
Unrestricted	1,038,439
Total net assets	\$ 2,900,974

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended September 30, 2012

	Business-type Activities - Enterprise (Water and Sewer) Fund
Operating revenues:	
Water sales	\$ 927,450
Sewer service charge	150,117
Impact fees	3,049
Infrastructure improvement fees	55,439
Miscellaneous	36,246
Total operating revenues	1,172,301
Operating expenses:	
Water administration	145,808
Water expenses	547,333
Sewer expenses	141,052
Depreciation	180,761
Total operating expenses	1,014,954
Operating income	157,347
Nonoperating revenue (expenses):	
Investment earnings	3,318
Interest and fiscal charges	(43,947)
Bond issuance costs	(6,472)
Total nonoperating revenue (expenses)	(47,101)
Income before transfers	110,246
Transfer out	(137,200)
Change in net assets	(26,954)
Total net assets - beginning	2,927,928
Total net assets - ending	\$ 2,900,974

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2012

	Business-type Activities - Enterprise (Water and Sewer) Fund
Cash flows from operating activities:	
Receipts from customers and users	\$ 1,298,412
Payments to suppliers	(650,664)
Payments to employees	(282,660)
Net cash provided (used) by operating activities	365,088
Cash flows from noncapital financing activities:	
Repayment of advances to other funds	30,630
Repayment of advances from other funds	(10,081)
Transfers to other funds	(137,200)
Net cash provided (used) by noncapital financing activities	(116,651)
Cash flows from capital and related financing activities:	
Principal paid on bond maturities	(78,509)
Interest and fiscal charges paid on bonds	(45,815)
Net cash provided (used) by capital and related financing activities	(124,324)
Cash flows from investing activities:	
Interest on investments	3,318
Net cash provided (used) by investing activities	3,318
Net increase in cash and cash equivalents	127,431
Cash and cash equivalents at beginning of year	971,391
Cash and cash equivalents at end of year	\$ 1,098,822
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 157,347
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	180,761
(Increase) decrease in accounts receivable	119,206
(Increase) decrease in inventory	(4,813)
Increase (decrease) in accounts payable and accrued expenses	(94,318)
Increase (decrease) in customer deposits	6,905
Total adjustments	207,741
Net cash provided by operating activities	\$ 365,088

See accompanying notes to financial statements.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Ovilla, Texas (the "City") is a general law municipality and was incorporated in 1963. The accompanying financial statements present the activity of the City.

Blended Component Units. Following are descriptions of legally separate component units for which the City is financially accountable that are blended with the City.

The Ovilla 4B Economic Development Corporation was created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year-end.

The Ovilla Municipal Development District was created in accordance with Chapter 377 of the Texas Local Government Code and is responsible for collecting and disbursing the one-quarter percent sales tax to be used for municipal development within the City. The members of the District's board are appointed by the City. The District is presented as a governmental fund type and has a September 30 year-end.

Separate financial statements for the Ovilla 4B Economic Development Corporation and the Ovilla Municipal Development District are not issued.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Property taxes, when levied for, intergovernmental revenues, when eligibility requirements are met, solid waste collection fees, interest and special assessments associated with the current fiscal year are all considered to be susceptible to accrual (measurable) and so have been recognized as revenues of the current fiscal period, if available. Available has been defined as received within sixty days of the fiscal year end. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest and related costs on long-term general obligation debt of governmental funds.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the sewage pumping stations and collection systems, and the water distribution system.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the government-wide governmental and business type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to apply private-sector guidance issued after November 30, 1989.

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

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

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

Deposits and Investments -

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

Investments for the City are reported at fair value.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity

Receivables and payables -

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

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivables in excess of sixty days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to .2 percent of taxes levied each year.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Central Tax Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

Inventory -

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

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Restricted assets –

Certain proceeds of the City’s enterprise fund bonds are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The “bond construction” account is used to report those proceeds of bond issuances that are restricted for use in construction. The "infrastructure impact fees" account is used to segregate resources accumulated for infrastructure improvements.

Capital assets -

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Buildings	30-40
Improvements	7-40
Machinery and equipment	3-15
Infrastructure	15-40

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Compensated absences –

It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Vacation leave shall be taken annually.

Long-term obligations -

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

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

Fund Equity -

The governmental fund financials present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned, in order as needed.

In the general fund, the City strives to maintain an adequate General Fund Reserve which shall be at least the equivalent of ninety days of general fund budgeted operating revenues less capital expenditures, budgeted reserves, and one time budgeted expenditures.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The annual budget is adopted on a basis consistent with generally accepted accounting principles for the debt service fund. Annual budgets for the general and water and sewer funds are prepared on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the fund level.

B. Compliance with finance related legal and contractual provisions

The City has no material violations of finance related legal and contractual provisions, including the Texas Public Funds Investment Act.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2012. At year end, the bank balance of the City's deposits was \$2,915,975. Of the bank balance, \$754,574 was covered by federal depository insurance and the remaining balance, \$2,161,401, was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$4,325,000.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and investments (continued)

Investments – Public funds of the City of Ovilla may be invested in the following obligations: (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities, (2) direct obligations of the State of Texas, or its agencies and instrumentalities, (3) other obligations which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities, (4) fully insured or collateralized certificates of deposits at a national or state bank with FDIC membership, domiciled within the State of Texas, (5) investment pools meeting the criteria established by section 2256.016 of the Texas Government Code, (6) repurchase agreements, reverse repurchase agreements, bankers’ acceptances, and commercial paper provided these instruments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests, and (7) regulated no-load money market mutual funds.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Public Funds Investment Act, and the actual rating as of year end.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexPool	\$ 308	N/A	AAAm
TexSTAR	10,334	N/A	AAAm
	<u>\$ 10,642</u>		

The City currently invests in 2a7-like pools. The City’s investment in TexPool and TexSTAR are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Texas Local Government Investment Pool (TexPool), was created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. Ch. 2256.

The daily operations of TexPool are managed by Federated Investors under a contract with the State Comptroller of Public Accounts. The state comptroller maintains oversight responsibility for TexPool including the ability to influence operations, designation of management and accountability for fiscal matters.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and investments (continued)

TexSTAR is co-administered by First Southwest Asset Management, Inc. and JPMorgan Chase, who provide investment services, participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JP Morgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

B. Receivables

Receivables as of year end for the government’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Other Governmental	Water and Sewer	Total
Receivables:					
Taxes	\$ 84,198	\$ 10,857	\$ 3,364	\$ -	\$ 98,419
Accounts	20,158	-	-	229,650	249,808
Gross receivables	<u>104,356</u>	<u>10,857</u>	<u>3,364</u>	<u>229,650</u>	<u>348,227</u>
Less: allowance for uncollectibles	(11,944)	(4,957)	-	(10,483)	(27,384)
Net total receivables	<u>\$ 92,412</u>	<u>\$ 5,900</u>	<u>\$ 3,364</u>	<u>\$ 219,167</u>	<u>\$ 320,843</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Delinquent property taxes receivable (general fund)	\$ 13,738
Delinquent property taxes receivable (debt service fund)	4,744
Total deferred revenue for governmental funds	<u>\$ 18,482</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 92,685	\$ -	\$ -	\$ 92,685
Total capital assets not being depreciated	92,685	-	-	92,685
Capital assets being depreciated:				
Buildings	317,819	-	-	317,819
Machinery and equipment	2,670,636	145,889	-	2,816,525
Infrastructure	1,106,711	9,499	-	1,116,210
Totals capital assets being depreciated	4,095,166	155,388	-	4,250,554
Less accumulated depreciation for:				
Buildings	(122,196)	(10,594)	-	(132,790)
Machinery and equipment	(1,773,657)	(215,555)	-	(1,989,212)
Infrastructure	(179,860)	(34,961)	-	(214,821)
Total accumulated depreciation	(2,075,713)	(261,110)	-	(2,336,823)
Total capital assets, being depreciated, net	2,019,453	(105,722)	-	1,913,731
Governmental activities capital assets, net	<u>\$ 2,112,138</u>	<u>\$ (105,722)</u>	<u>\$ -</u>	<u>\$ 2,006,416</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 86,700	\$ -	\$ -	\$ 86,700
Total capital assets not being depreciated	86,700	-	-	86,700
Capital assets being depreciated:				
Buildings	85,084	-	-	85,084
Improvements	4,849,490	-	-	4,849,490
Machinery and equipment	326,753	-	-	326,753
Total capital assets being depreciated	5,261,327	-	-	5,261,327
Less accumulated depreciation for:				
Buildings	(18,303)	(2,331)	-	(20,634)
Improvements	(1,951,901)	(163,388)	-	(2,115,289)
Machinery and equipment	(196,432)	(15,042)	-	(211,474)
Total accumulated depreciation	(2,166,636)	(180,761)	-	(2,347,397)
Total capital assets being depreciated, net	3,094,691	(180,761)	-	2,913,930
Business-type capital assets, net	<u>\$ 3,181,391</u>	<u>\$ (180,761)</u>	<u>\$ -</u>	<u>\$ 3,000,630</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

C. Capital assets (continued)

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

Governmental activities:	
General government	\$ 11,988
Public safety	205,532
Streets	41,662
Cultural and recreational	1,928
Total depreciation expense - governmental activities	<u>\$ 261,110</u>
Business-type activities:	
Water and sewer	<u>\$ 180,761</u>
Total depreciation expense - business-type activities	<u>\$ 180,761</u>

D. Interfund receivables, payables and transfers

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	General	<u>\$ 14,515</u>
		<u>\$ 14,515</u>

These balances resulted from the lag time between the dates that transactions are recorded in the accounting system and payments between funds are made.

Interfund transfers:

	<u>Transfer In:</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Transfer out:			
Nonmajor Governmental	\$ 3,000	\$ -	\$ 3,000
Water and Sewer	94,736	42,464	137,200
	<u>\$ 97,736</u>	<u>\$ 42,464</u>	<u>\$ 140,200</u>

Transfers were primarily used to move funds from the Water and Sewer Fund to the Debt Service Fund for the payment of bonds and from the Water and Sewer Fund to the General Fund for operations.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt

General Obligation Refunding Bonds -

The City issues general obligation refunding bonds to provide funds for the refunding of prior outstanding certificates of obligation. General obligation refunding bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

General obligation refunding bonds currently outstanding and reported as liabilities of the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2011	\$ 5,959,638	8/15/2029	2%-4%	<u>\$ 5,569,830</u>

General obligation refunding bonds currently outstanding and reported as liabilities of the City's business-type activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2011	\$ 1,455,362	8/15/2029	2%-4%	<u>\$ 1,360,170</u>

Annual debt service requirements to maturity are as follows -

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>General Obligation Refunding Bonds</u>		<u>General Obligation Refunding Bonds</u>	
	Principal	Interest	Principal	Interest
2013	\$ 321,491	\$ 181,181	\$ 78,509	\$ 44,245
2014	285,323	174,751	69,677	42,675
2015	293,360	169,045	71,640	41,281
2016	301,398	163,178	73,602	39,848
2017	301,398	157,150	73,602	38,376
2018-2022	1,647,641	651,381	402,359	159,069
2023-2027	1,969,132	332,743	480,868	81,257
2028-2029	450,087	18,164	109,913	4,436
	<u>\$ 5,569,830</u>	<u>\$ 1,847,593</u>	<u>\$ 1,360,170</u>	<u>\$ 451,187</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

E. Long-term debt (continued)

Changes in long-term liabilities –

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental activities:					
Bonds payable:					
General obligation					
refunding bonds	\$ 5,891,321	\$ -	\$ (321,491)	\$ 5,569,830	\$ 321,491
Less deferred amounts:					
For issuance discount	(10,438)	-	773	(9,665)	-
For issuance premium	128,922	-	(7,162)	121,760	-
Total bonds payable	6,009,805	-	(327,880)	5,681,925	321,491
Compensated absences	51,022	13,232	(23,361)	40,893	40,893
Capital leases	11,597	-	(11,597)	-	-
Governmental activity					
Long-term liabilities	<u>\$ 6,072,424</u>	<u>\$ 13,232</u>	<u>\$ (362,838)</u>	<u>\$ 5,722,818</u>	<u>\$ 362,384</u>
Business-type activities:					
Bonds payable:					
General obligation					
refunding bonds	\$ 1,438,679	\$ -	\$ (78,509)	\$ 1,360,170	\$ 78,509
Less deferred amounts:					
For issuance discount	(1,160)	-	77	(1,083)	-
For issuance premium	31,483	-	(1,749)	29,734	-
Total bonds payable	1,469,002	-	(80,181)	1,388,821	78,509
Compensated absences	14,876	9,429	(7,593)	16,712	16,712
Business-type activity					
Long-term liabilities	<u>\$ 1,483,878</u>	<u>\$ 9,429</u>	<u>\$ (87,774)</u>	<u>\$ 1,405,533</u>	<u>\$ 95,221</u>

General obligation refunding bonds issued for governmental activity purposes are liquidated by the debt service fund. General obligation bonds issued for business-type activities are repaid from those activities.

Governmental compensated absences and capital lease obligations will be liquidated by the general fund. Business-type compensated absences will be liquidated by those activities.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 3 – DETAILED NOTES ON ALL FUNDS (continued)

F. Restricted assets

The balances of the restricted asset accounts in the proprietary fund are as follows:

Bond construction account	\$ 130,978
Infrastructure impact fees	119,748
	<u>\$ 250,726</u>

NOTE 4 – OTHER INFORMATION

A. 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 maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

B. Commitments

The City has entered into a memorandum of agreement with the City of Dallas, Texas to purchase treated water for a term of thirty years, expiring in 2039. The City pays for water based on the volume received at a flat rate as determined under the contract. The City of Dallas agrees to provide potable water to meet volume and demand requirements of the City. Delivery of potable water are subject to and limited to available system supply and system deliverability, as determined by the Director of Water Utilities of Dallas. If the City ceases to take water from the City of Dallas because other surface water supplies have been developed or acquired, the City shall for five years or the balance of this contract, whichever is less, remain liable for demand charges at the billing level in effect at such cessation.

Actual payments for the year ended September 30, 2012 were \$321,915.

The City has entered into a contract with the Trinity River Authority of Texas - Red Oak Creek Regional Wastewater System to obtain wastewater treatment services, expiring in 2017. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority (TRA) is a governmental agency, which is controlled by directors appointed by the governor.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION

B. Commitments (continued)

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. The estimated future monthly payment due under the contract at September 30, 2011s totaled \$2,262.

Actual payments for the year ended September 30, 2012 were \$36,449.

The payments to be received from the City of Ovilla, Texas are used as collateral for the bonds issued by TRA to construct the facility.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

C. Contingencies

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

D. Texas Municipal Retirement System

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 from TMRS' website at www.TMRS.com.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

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

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	1.5 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

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, which for 2012 and 2011 was 5.02% and 5.50%, respectively. 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:

Annual Required Contribution (ARC)	\$ 48,607
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	48,607
Contributions Made	(48,607)
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

Six year historical trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2007	\$ 52,233	\$ 52,233	100%	\$ -
2008	55,804	55,804	100%	-
2009	48,420	48,420	100%	-
2010	49,069	49,069	100%	-
2011	51,525	51,525	100%	-
2012	48,607	48,607	100%	-

The required contribution rates for the year ended September 30, 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	22.9 years; closed period	23.8 years; closed period	23.8 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.0% 0%	3.0% 0%	3.0% 0%

Funded Status and Funding Progress – The schedule of funding progress, presenting multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2006	\$ 499,847	\$ 548,375	91.2%	\$ 48,528	\$ 689,402	7.0%
12/31/2007	590,205	706,706	83.5%	116,501	722,025	16.1%
12/31/2008	722,820	844,686	85.6%	121,866	854,190	14.3%
12/31/2009	857,209	976,704	87.8%	119,495	845,619	14.1%
12/31/2010	1,274,261	1,495,042	85.2%	220,781	895,775	24.6%
12/31/2011	1,417,592	1,641,208	86.4%	223,616	891,271	25.1%

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

D. Texas Municipal Retirement System (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

E. Texas Emergency Services Retirement System

Plan Description -

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010 there were 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits*	2,167
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Nonvested)	4,371
	8,644

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

E. Texas Emergency Services Retirement System (continued)

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy -

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up a limited amount to make TESRS actuarially sound.

Contributions Required and Contributions Made -

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal year ending August 31, 2010 and 2011. Total contributions made were greater than the contributions required by the state statute and equal to the contributions required based on the August 31, 2008 actuarial valuation.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

E. Texas Emergency Services Retirement System (continued)

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010 (\$502,491 to help pay for the System’s administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$500,000 each year to help pay for the System’s administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ¹ (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
08/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
08/31/2007	N/A	N/A	N/A	N/A	N/A	N/A
08/31/2008 ²	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
08/31/2009	N/A	N/A	N/A	N/A	N/A	N/A
08/31/2010 ³	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984
08/31/2011	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

- ¹ The actuarial accrued liability is based upon the entry age actuarial cost method.
- ² Changes in actuarial assumptions were reflected in this valuation.
- ³ Changes in actuarial assumption and method were reflected in this valuation.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

E. Texas Emergency Services Retirement System (continued)

Six-year trend information is as follows:

Fiscal Year Ending	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
08/31/2006	\$ 2,753,035 ¹	\$ 2,753,035 ⁴	100%
08/31/2007	3,162,742 ²	3,162,742 ⁵	100%
08/31/2008	3,160,764 ²	11,239,339 ⁶	356%
08/31/2009	2,698,271 ³	2,698,271	100%
08/31/2010	2,875,103 ³	2,875,103	100%
08/31/2011	N/A	N/A	N/A

¹ Based on the revised August 31, 2004 actuarial valuation.

² Based on the August 31, 2006 actuarial valuation.

³ Based on the August 31, 2008 actuarial valuation.

⁴ Includes a state contribution of \$675,307.

⁵ Includes a state contribution of \$709,072.

⁶ Includes a state contribution of \$8,800,000.

Valuation Date	8/31/2008	8/31/2010
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open
Amortization Period	6 years	30 years
Asset Valuation Method	Market value smoothed by a 5- year deferred recognition method with a 90%/110% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:		
Investment Rate of Return*	8.00% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected Salary Increases	N/A	N/A
* Includes Inflation at	3.50%	3.50%
Cost-of-Living Adjustments	None	None

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

F. Postemployment Benefits

Program Description:

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

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 from TMRS' website at www.TMRS.com.

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

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

The City's contributions to the TMRS SDBF for the years ended 2012 and 2011 were \$1,337 and \$1,344, respectively, which equaled the required contributions each year.

Plan / Calendar Year	City's Contribution		Schedule of Contribution Rates As a Percentage of Covered Payroll		
	Annual Required Contribution	Actual Contribution Made	Annual Required Contribution	Actual Contribution Made	Percentage of ARC Contributed
	2007	\$ 1,880	\$ 1,880	0.26%	0.22%
2008	1,281	1,281	0.15%	0.26%	100.0%
2009	1,268	1,268	0.15%	0.15%	100.0%
2010	1,440	1,440	0.19%	0.15%	100.0%
2011	1,344	1,344	0.15%	0.19%	100.0%
2012	1,337	1,337	0.15%	0.15%	100.0%

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2012

NOTE 4 – OTHER INFORMATION (continued)

G. Subsequent Events

Subsequent to year end, the City entered into a contract for engineering services related to the Water Street Water Line Project and the Red Oak Creek Water Line Crossing Project totaling \$15,700.

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

This supplementary schedule is included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

CITY OF OVILLA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2012

	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget
	Original	Final				
REVENUES						
Taxes:						
Property	\$ 1,236,000	\$ 1,245,000	\$ 1,253,786	\$ 2,726	\$ 1,256,512	\$ 11,512
Sales	162,000	205,000	201,432	2,202	203,634	(1,366)
Franchise	142,000	147,321	151,591	2,979	154,570	7,249
Licenses and permits	27,000	28,200	30,184	-	30,184	1,984
Fines and forfeitures	54,650	50,901	58,844	(2,008)	56,836	5,935
Charges for current services	354,410	355,935	364,312	(10,842)	353,470	(2,465)
Revenues from use of money and property	500	3,500	5,591	-	5,591	2,091
Other	89,231	91,391	101,700	-	101,700	10,309
Intergovernmental	1,175	5,195	28,226	(23,030)	5,196	1
Total revenues	<u>2,066,966</u>	<u>2,132,443</u>	<u>2,195,666</u>	<u>(27,973)</u>	<u>2,167,693</u>	<u>35,250</u>
EXPENDITURES						
Current:						
General government	492,501	485,673	358,218	(2,035)	356,183	(129,490)
Public safety:						
Fire protection	491,493	578,548	538,599	(5,857)	532,742	(45,806)
Police protection	599,660	622,636	598,644	(2,100)	596,544	(26,092)
Municipal court	50,610	54,491	55,241	(573)	54,668	177
Code enforcement	60,446	68,719	66,899	(876)	66,023	(2,696)
Total public safety	<u>1,202,209</u>	<u>1,324,394</u>	<u>1,259,383</u>	<u>(9,406)</u>	<u>1,249,977</u>	<u>(74,417)</u>
Streets	284,578	369,676	340,034	-	340,034	(29,642)
Cultural and recreational	15,200	23,293	21,993	-	21,993	(1,300)
Solid waste	197,450	197,450	196,493	-	196,493	(957)
Debt service:						
Principal retirement	-	-	11,597	(11,597)	-	-
Interest and fiscal charges	-	-	494	(494)	-	-
Total debt service	<u>-</u>	<u>-</u>	<u>12,091</u>	<u>(12,091)</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,191,938</u>	<u>2,400,486</u>	<u>2,188,212</u>	<u>(23,532)</u>	<u>2,164,680</u>	<u>(235,806)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(124,972)</u>	<u>(268,043)</u>	<u>7,454</u>	<u>(4,441)</u>	<u>3,013</u>	<u>271,056</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	124,972	124,972	97,736	12,733	110,469	(14,503)
Total other financing sources and uses	<u>124,972</u>	<u>124,972</u>	<u>97,736</u>	<u>12,733</u>	<u>110,469</u>	<u>(14,503)</u>
Net change in fund balance	-	(143,071)	105,190	8,292	113,482	256,553
Fund balance at beginning of year	-	-	1,095,132	-	1,095,132	1,095,132
Fund balance at end of year	<u>\$ -</u>	<u>\$ (143,071)</u>	<u>\$ 1,200,322</u>	<u>\$ 8,292</u>	<u>\$ 1,208,614</u>	<u>\$ 1,351,685</u>

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Fire Department Auxiliary - This fund is used to account for donations to the Fire Department which in turn are spent on education, firefighter awards banquet and community services such as National Night Out and Heritage Day.

Park Impact Fees - This fund is used to account for funds received from an impact fee assessed through new building permits and is used to purchase new park equipment and make improvements to our parks.

Police Department Special - This fund is used to account for donations to the Police Department which in turn are spent on education, protective equipment, police awards and community services such as National Night Out and Heritage Day.

Ovilla 4B Economic Development Corporation - This fund is used to account for the Ovilla 4B Economic Development Corporation created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended. The Ovilla 4B Economic Development Corporation initiative is to promote economic development in Ovilla and is currently accumulating funds to spend on future projects.

Ovilla Municipal Development District - This fund is used to account for the Ovilla Municipal Development District, a political subdivision of the State of Texas and the City, created in accordance with Chapter 377 of the Texas Local Government Code (the "Act"). The Ovilla Municipal Development District was established for the purpose of developing and financing all permissible projects prescribed by the Act.

CITY OF OVILLA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012

	Fire Department Auxiliary	Park Impact Fees	Police Department Special	Ovilla 4B Economic Development Corporation	Ovilla Municipal Development District	Total Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 7,272	\$ 22,515	\$ 1,704	\$ 235,255	\$ 41,664	\$ 308,410
Receivables	-	-	-	-	3,364	3,364
Due from other funds	-	-	-	14,515	-	14,515
Total assets	<u>\$ 7,272</u>	<u>\$ 22,515</u>	<u>\$ 1,704</u>	<u>\$ 249,770</u>	<u>\$ 45,028</u>	<u>\$ 326,289</u>
LIABILITIES AND FUND BALANCES						
46 Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances:						
Restricted for:						
Public safety	7,272	-	1,704	-	-	8,976
Cultural and recreational	-	22,515	-	-	-	22,515
Economic development	-	-	-	249,770	-	249,770
Municipal development	-	-	-	-	45,028	45,028
Total fund balances	<u>7,272</u>	<u>22,515</u>	<u>1,704</u>	<u>249,770</u>	<u>45,028</u>	<u>326,289</u>
Total liabilities and fund balances	<u>\$ 7,272</u>	<u>\$ 22,515</u>	<u>\$ 1,704</u>	<u>\$ 249,770</u>	<u>\$ 45,028</u>	<u>\$ 326,289</u>

CITY OF OVILLA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2012

	Fire Department Auxiliary	Park Impact Fees	Police Department Special	Ovilla 4B Economic Development Corporation	Ovilla Municipal Development District	Total Nonmajor Governmental Funds
REVENUES						
Sales tax	\$ -	\$ -	\$ -	\$ 80,783	\$ 23,712	\$ 104,495
Interest	-	14	-	636	23	673
Other	-	1,673	-	-	-	1,673
Intergovernmental	1,462	-	-	-	-	1,462
Contributions and donations	18,390	-	1,513	-	-	19,903
Total revenues	<u>19,852</u>	<u>1,687</u>	<u>1,513</u>	<u>81,419</u>	<u>23,735</u>	<u>128,206</u>
EXPENDITURES						
47 Current:						
Public safety	16,944	-	6,595	-	-	23,539
Cultural and recreational	-	3,000	-	-	-	3,000
Economic development	-	-	-	7,394	-	7,394
Municipal development	-	-	-	-	1,650	1,650
Total expenditures	<u>16,944</u>	<u>3,000</u>	<u>6,595</u>	<u>7,394</u>	<u>1,650</u>	<u>35,583</u>
Excess (deficiency) of revenues over expenditures	<u>2,908</u>	<u>(1,313)</u>	<u>(5,082)</u>	<u>74,025</u>	<u>22,085</u>	<u>92,623</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	-	(2,500)	(500)	(3,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>	<u>(500)</u>	<u>(3,000)</u>
Net change in fund balances	2,908	(1,313)	(5,082)	71,525	21,585	89,623
Fund balances - beginning	<u>4,364</u>	<u>23,828</u>	<u>6,786</u>	<u>178,245</u>	<u>23,443</u>	<u>236,666</u>
Fund balances - ending	<u>\$ 7,272</u>	<u>\$ 22,515</u>	<u>\$ 1,704</u>	<u>\$ 249,770</u>	<u>\$ 45,028</u>	<u>\$ 326,289</u>

DEBT SERVICE FUND

The *debt service fund* is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF OVILLA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Over (Under) Budget
	Original	Final		
Revenues:				
Property tax	\$ 528,478	\$ 436,432	\$ 435,447	\$ (985)
Interest	1,100	900	929	29
Other	-	-	4,623	4,623
Total revenues	<u>529,578</u>	<u>437,332</u>	<u>440,999</u>	<u>3,667</u>
Expenditures:				
Debt service:				
Principal on bonds	400,000	400,000	321,491	(78,509)
Interest and fiscal charges	233,925	233,925	187,910	(46,015)
Total expenditures	<u>633,925</u>	<u>633,925</u>	<u>509,401</u>	<u>(124,524)</u>
Excess (deficiency) of revenues over expenditures	<u>(104,347)</u>	<u>(196,593)</u>	<u>(68,402)</u>	<u>128,191</u>
Other financing sources (uses):				
Transfers in	166,788	166,788	42,464	(124,324)
Total other financing sources (uses)	<u>166,788</u>	<u>166,788</u>	<u>42,464</u>	<u>(124,324)</u>
Net change in fund balance	62,441	(29,805)	(25,938)	3,867
Fund balance - beginning	<u>-</u>	<u>115,500</u>	<u>172,872</u>	<u>57,372</u>
Fund balance - ending	<u>\$ 62,441</u>	<u>\$ 85,695</u>	<u>\$ 146,934</u>	<u>\$ 61,239</u>

Proprietary Fund

ENTERPRISE FUND

The City's water and sewer utility operations are accounted for in this fund.

CITY OF OVILLA, TEXAS
SCHEDULE OF OPERATING REVENUES AND EXPENSES -
BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
Year Ended September 30, 2012

	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Over (Under) Budget
	Original	Final				
WATER OPERATING REVENUES						
Water sales	\$ 912,040	\$ 1,012,040	\$ 927,450	\$ 133,392	\$ 1,060,842	\$ 48,802
Sewer service charge	138,951	141,101	150,117	(4,796)	145,321	4,220
Impact fees	5,100	600	3,049	(1,815)	1,234	634
Infrastructure improvement fees	55,000	55,000	55,439	-	55,439	439
Miscellaneous	25,500	31,925	36,246	341	36,587	4,662
TOTAL OPERATING REVENUES	\$1,136,591	\$ 1,240,666	\$1,172,301	\$ 127,122	\$1,299,423	\$ 58,757
OPERATING EXPENSES						
Water administration	\$ 168,951	\$ 169,471	\$ 145,808	\$ (2,220)	\$ 143,588	\$ (25,883)
Water expenses	531,503	628,359	547,333	793	548,126	(80,233)
Sewer expenses	150,235	157,084	141,052	(2,563)	138,489	(18,595)
Depreciation	-	-	180,761	(180,761)	-	-
TOTAL OPERATING EXPENSES	\$ 850,689	\$ 954,914	\$ 1,014,954	\$ (184,751)	\$ 830,203	\$ (124,711)

Supplementary Financial Data

CITY OF OVILLA, TEXAS
MISCELLANEOUS STATISTICAL FACTS
September 30, 2012

Estimated gallons billed (in thousands)	204,860
Estimated gallons purchased (in thousands)	210,468
Percent billed to purchased	97.34%