

CITY OF SACHSE, TEXAS

Comprehensive Annual Financial Report



FISCAL YEAR ENDED

SEPTEMBER 30, 2011

AS PREPARED BY THE

FINANCE DEPARTMENT

CITY OF SACHSE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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COMPREHENSIVE ANNUAL FINANCIAL STATEMENT
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INTRODUCTORY SECTION





March 26, 2012

Honorable Mayor and City Council,
City Manager, and
Citizens of Sachse

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the City of Sachse, Texas, for the fiscal year ended September 30, 2011. The CAFR is provided to give detailed information about the financial position and activities of the City to the Citizens, City Council, Staff and other readers.

Management assumes full responsibility for the completeness and reliability of information contained in this report, based upon a comprehensive framework of internal controls that is established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Rutledge Crain & Company, PC has issued an unqualified ("clean") opinion on the City of Sachse's financial statements for the year ended September 30, 2011. The independent auditors' report is located at the beginning of the financial section of the CAFR.

This letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements.

PROFILE OF THE GOVERNMENT

The City of Sachse, incorporated in 1956, is located in Dallas County and Collin County, Texas, 20 miles northeast of downtown Dallas, on State Highway 78 and currently occupies a land area of 9.8 square miles. The City's population is 20,570.

The City Council is comprised of a Mayor and six council members, and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Attorney, and Municipal Judge. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the department heads, and the performance of functions within the municipal organization.

The City of Sachse provides a full range of services including police, fire, emergency ambulance service, library, parks, recreation, sewer, engineering, streets and infrastructure, community development (planning and zoning), and general administrative services.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of Sachse as legally defined), as well as all of its component units. Component units are legally separate entities for

which the primary government is financially accountable. Discretely presented component units are legally separate entities and not part of the primary government's operations. The Sachse Economic Development Corporation (SEDC) is included in the financial statements as a discretely presented component unit.

The annual budget serves as the foundation for Sachse's financial planning and control. Annual budgets are legally adopted for the General Fund and Debt Service Fund. Each year the City Manager is required to submit to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers' comments. Prior to October 1, the budget is legally enacted by the City Council through passage of an ordinance, setting the limit for expenditures during the fiscal year. Expenditure appropriations in the adopted budget are by department and may be amended during the year. The City Manager is authorized to adjust budgeted amounts; however, such revisions may not result in total expenditures exceeding budgeted expenditures without approval of the City Council.

Throughout the year, monthly reports are provided to the individual departments to review and compare actual versus budgeted amounts. The Finance Department also reviews operating revenues and expenditures, recommending adjustments, as needed. On a quarterly basis, the Finance Department submits financial reports to the City Council.

Formal budgetary integration is not employed for the PGBT Tax Increment Financing Zone Fund (TIF), Special Revenue Fund, Capital Projects Fund, or Proprietary Fund. However, the City does adopt an annual budget for those funds for managerial control.

LOCAL ECONOMY

Despite the problems with the economy the City of Sachse continues to enjoy a stable economic environment and local indicators point to continued stability as part of the Dallas/Fort Worth Metroplex area. The close proximity to major transportation networks in the North Dallas regional area enhances residential and commercial development in the City of Sachse. State Highway 78 connects Sachse to the President George Bush Turnpike, the North/South Central Expressway and the East/West Interstate 30. The City is in close proximity to the Dallas Area Rapid Transportation System (DART) which includes both train and bus stations. The total transportation network gives our current and future residents easy access to major industrial and business developments in North Dallas and East Dallas and many business and industrial developments in Plano, Richardson, and Mesquite. While Sachse is ideal for residential development, it is anticipated that commercial development in the City will continue to increase with the eastern expansion of the George Bush Turnpike (Highway 190) to IH 30, which was completed in December 2011. In planning for this expansion, the City of Sachse put in place a Tax Increment Financing Zone (TIF). The TIF Zone contains approximately 540 acres of commercial development.

Property Values – Assessed property values increased \$4,395,875 (0.36%) from the preceding year with \$29,030,172 new property and a \$24,634,297 decrease in the value of existing property. During the last five years, assessed property value has increased 9.4 % (from \$1,132,560,840 in 2007 to \$1,234,165,298 in 2011) and property taxes account for 65 % of the General Fund revenue. With a well-educated populace and average household income of \$82,219, Sachse enjoys an exceptionally high property tax collection rate.

Long-Term Strategic Planning – Long-term vision and strategic planning have been the catalyst for the City's transformation and shaping Sachse into a friendly, vibrant community offering a safe and enjoyable quality of life to all who call Sachse home. The City's annual budget process involves incorporating the goals and strategies identified by the City Council. Individual departments develop their goals and objectives in terms of these all-encompassing organizational goals. Priorities during the 2010-2011 budget year were:

- Transportation – Improve mobility throughout the City
- Infrastructure – Systematically invest in public infrastructure
- Facilities – Analyze and plan for future facility needs beyond current construction
- Fiscally Sound – Negotiate strongly on all agreements
- Economic Development – Provide economic investment that increases employment opportunity, the tax base, and provides desired goods and services for residents and contributes to the community character and identify
- Public Safety and Security – Enhance neighborhood livability and safety
- Planning – Proactively work to keep various plans reviewed and updated
- Open Government – Increase public awareness using multiple communication sources
- Arts, Culture and Recreation – Enhance and communicate Sachse's activities to the community

Strategic Financial Plan – An appropriate financial plan for the City of Sachse requires many elements all working in concert with one another. Additional demands for "essential" City services such as police, fire, sewer, drainage and street improvements is anticipated. The Finance Department's management role will be to maintain and enhance financial plan elements and ensure the continued financial stability for the City of Sachse.

Financial Resource Planning – Strategic planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis techniques and careful reserve analysis will preserve the fiscal well being of Sachse. Strategic planning is a critical element not only to meet long-term financial stability goals but to determine City Council objectives that will require special financial planning to achieve success.

Capital Improvement Planning – The City of Sachse's Capital Improvement Program is a multi-year financial plan for the acquisition expansion, or rehabilitation of infrastructure, capital assets, or productive capacity of City services. The City's operating and capital project budgets are closely linked.

Revenues for the capital budget come from bond sales, development fees, intergovernmental revenues and current operating revenues. The Capital Improvement Program, unlike the operating budget, is a five-year plan that is reviewed and projects are reprioritized as needed. Project budgets are used as a guide for projects, debt, and other related budget planning. As such, plans for future years are subject to change.

Debt Management – All debt issuances are for the purpose of financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated against multiple policies addressing: debt service as a percent of operating expenditures, tax and revenue basis for the repayment of debt, the overall debt burden on the community, statutory limitations and market factors affecting tax-exempt interest costs. Sizing of the City's capital improvement program based on debt capacity in conjunction with conservatively estimated pay-as-you-go revenues help stabilize per capita debt and lower annual debt service costs to the City for the long-term.

FISCAL YEAR 2011 HIGHLIGHTS

The citizens of Sachse voted for General Obligation Bonds in the amount of \$37,925,000 for facilities, parks and transportation in November 2007. The GO Bond program is currently in progress. Construction on the Municipal Complex and the Salmon Park Improvement project have been completed. Major street improvements to 5th Street and Dewitt Road were completed in 2010. Bunker Hill Road was designed and construction began in November 2011 and is planned to be complete in January, 2013.

The North Texas Tollway Authority (NTTA) Eastern Extension of the President George Bush Turnpike from State Highway 78 in Garland to Interstate Highway 30 in Garland was completed and open to traffic on December 22, 2011. The 9.9 mile segment is a six-lane toll road passing through Garland, Sachse and Rowlett. The turnpike will increase Sachse's regional accessibility and open up a portion of the City, currently agricultural land, to development.

Engineering design of a traffic signal at the intersection of Miles Road and Sachse Road began. The design is anticipated to be complete by the end of the first quarter of 2012 with construction occurring in the summer of 2012.

The design of Holly Crest paving improvements was completed. Construction is planned to occur in the summer of 2012.

The design of the Brookhollow paving improvements was ongoing in 2011. Construction is planned to begin late 2012.

The update to the City's 10-year Capital Improvement Plan began for the Master Thoroughfare Plan, Water Master Plan, and Sanitary Sewer Master Plan for the update to the City's impact fees. The update is planned to be complete by the second quarter in 2012.

The City completed the refurbishment and repainting of the Sachse Road elevated tank, the 5th Street elevated tank and the Maxwell Creek Road ground storage tanks.

Woodbridge Parkway is being extended with the addition of a railroad grade crossing at Woodbridge Parkway and State Highway 78. The addition of this crossing is for the enhancement of mobility but will create a commercial development in the northwestern quadrant of the City. Staff continues to coordinate with the development team in progressing toward the future development of a Wal-mart store at the southwest corner of State Highway 78 and future Woodbridge Parkway. A final plat has been approved by the City for this property. Concurrent with the Wal-mart development, Woodbridge Parkway will be extended to FM 544 in Wylie. This thoroughfare project involves inter-agency participation with Collin County and the City of Wylie.

The City continues to work with the City of Wylie and Collin County on the design of a new Hooper Road bridge across Maxwell Creek which is a segment of the Woodbridge Parkway extension project. The bridge will eventually connect Hooper Road in Wylie to Woodbridge Parkway in Sachse, which will improve regional mobility.

The City approved the Sachse Turnpike Overlay Zoning District to promote high quality commercial development along the President George Bush Turnpike. The overlay district is intended to prepare the properties for commercial growth by adopting unified zoning standards for the district.

AWARDS AND ACKNOWLEDGEMENTS

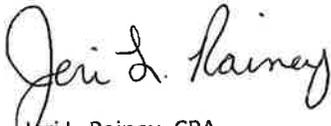
Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sachse for its CAFR for the fiscal year ended September 30, 2010. This was the twelfth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements – Many people are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to representatives of Rutledge Crain & Company PC for their invaluable assistance in producing the final document and to the Finance team who were instrumental in the completion of this report.

We would also like to thank the Mayor, City Council, the City Manager and City of Sachse staff for their assistance, interest and support in the preparation of this document as well as planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Jeri L. Rainey, CPA
Finance Director



Teresa C. Savage
Finance Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sachse
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



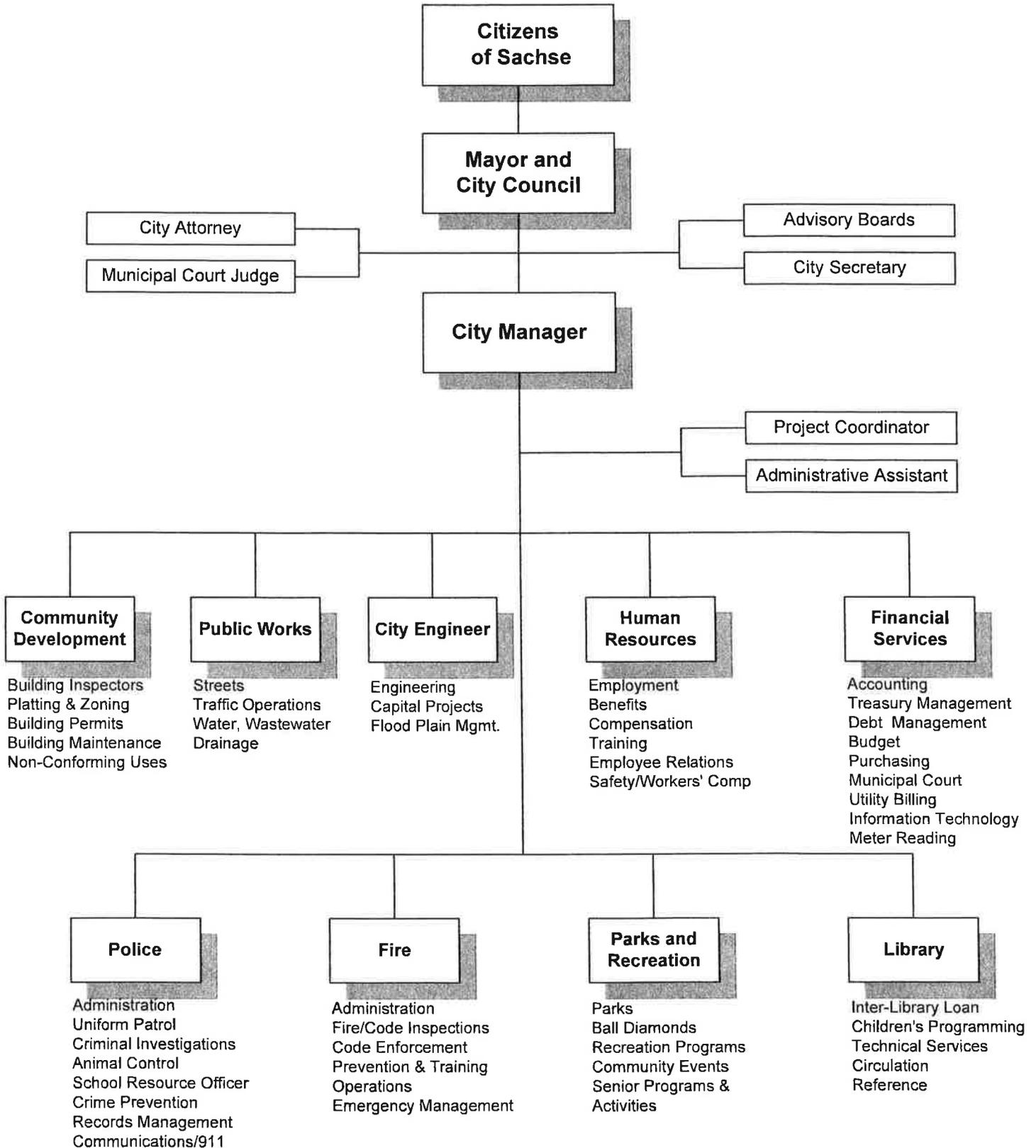
Linda C. Sandison

President

Jeffrey R. Emer

Executive Director

City of Sachse Organizational Chart



CITY OF SACHSE, TEXAS

CITY OFFICIALS



Council Members

Mayor	Mike Felix
Mayor Pro Tem	Charles Smith
Council Member	Bill Adams
Council Member	Patsy "Pat" McMillan
Council Member	Jared Patterson
Council Member	Todd Ronnau
Council Member	Mark Timm

Management Staff

City Manager	Billy George
City Secretary	Terry Smith
Finance Director	Jeri Rainey
Community Development Director	Marc Kurbansade
City Engineer	Shawn Poe
Economic Development Corporation Director	Carlos Vigil
Fire/EMS Chief	Douglas Kendrick
Human Resources Director	Cheree Bontrager
Library Manager	Mignon Morse
Parks/Senior Center Director	Lance Whitworth
Police Chief	Dennis Veach
Public Works Director	Joe Crase

FINANCIAL SECTION



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

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Sachse, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the discretely presented component unit, each major fund of the City of Sachse, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sachse, 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, the discretely presented component unit, and each major fund of the City of Sachse, Texas, as of September 30, 2011, 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 15 through 27 and 65 through 67 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sachse, Texas' financial statements as a whole. The introductory section, individual budgetary comparison schedules, and discretely presented component unit financial statements and schedule, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedules and discretely presented component unit fund financial statements and schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Rutledge Crain & Company, PC

March 26, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS



**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

As management of City of Sachse, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities (net assets) at September 30, 2011 by \$65,891,620. Of this amount, \$6,612,504 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$2,540,333. The majority of the City's net assets are invested in capital assets or restricted for specific purposes. Decreases in cash and cash equivalents were offset by a similar decrease in liabilities.
- The City's governmental funds reported combined ending fund balances of \$16,988,744 at September 30, 2011, a decrease of \$1,666,840 from the prior fiscal year; this includes a decrease of \$1,780,191 in the Capital Projects Fund and an increase of \$165,632 in the General Fund.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$3,194,885 or 30% of total General Fund expenditures.
- The City's outstanding bonds payable decreased by \$950,000 or 2% of the City's total debt outstanding at the beginning of the fiscal year. The total bonds payable at the close of the fiscal year was \$41,360,000 including self supporting debt of the proprietary fund which was \$1,210,000.

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 (*statistical*) 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. Two statements, the Statement of Net Assets and the Statement of Activities, are utilized to provide this financial overview.

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. To assess the overall health of the City, other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

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 the future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

These two government-wide financial statements also distinguish between 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 and administration, public safety, public works, development services, and cultural and recreation. The business-type activities of the City include water and sewer operations.

In the government-wide financial statements, pages 31 through 33, the City is divided into three kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including the police, fire, library, community development, parks and recreation, municipal court, and general administration. Property and sales taxes, charges for services and franchise fees finance most of these activities.
- **Business-type activities** – The City's water, sewer and solid waste operations are reported here. These are functions intended to recover all or a significant portion of their costs through user fees and charges.
- **Component units** – The City includes two separate legal entities in this report: the Sachse Economic Development Corporation (SEDC), a discrete component unit and the George Bush Turnpike Reinvestment Zone (TIF), a blended component unit. Although legally separate, these component units are important because the City is financially accountable for them.

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 and proprietary.

Governmental Funds - Governmental funds are used to account for the majority of the City's activities which are essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as resources available for future spending at fiscal year end. The governmental fund statement provides a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources than can be spent in the near future to finance the City's programs. In short, this information is useful in evaluating a governments 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

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

decisions. A reconciliation is provided on page 37 that details the relationships or differences between Governmental Funds Balance Sheet to the Statement of Net Assets as reported for governmental activities.

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. This reconciliation can be found on page 41.

The City maintains three major governmental funds – the General Fund, Debt Service Fund and Capital Projects Fund. Information is presented separately in the Governmental Funds Balance Sheet (page 34). In the governmental fund financial statements the City maintains two non-major governmental funds, Special Revenue Fund and PGBT (TIF) Fund which are reported as Other Governmental Funds. The basic governmental funds financial statements can be found on pages 34 through 39.

Enterprise Fund - The City maintains only one proprietary fund or enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City charges customers for the services it provides. The City uses an enterprise fund to account for its water and sewer and sanitation operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. Proprietary financial statements 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 a major fund of the City. The basic proprietary fund financial statements can be found on pages 42 through 44 of this report.

Component Units - The City maintains the accounting and financial statements for two component units. The Sachse Economic Development Corporation is reported as a discrete component unit on the government wide financial statements. Its separate fund information is included in the supplementary information section. The George Bush Turnpike Reinvestment Zone is reported as a blended component unit and is a major fund.

Notes to the Financial Statements - Additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements is provided in the notes to the financial statements found on pages 45 through 62.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the General Fund in Exhibit B-1 on page 65. Budgets for nonmajor governmental funds are included as other supplementary information. The exhibits present budget basis information for governmental funds that have legally adopted budgets. There are combining balance sheets and combining statements of revenues, expenditures, and changes in fund balances for each non-major governmental fund.

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and net assets by category may serve over time as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$65,891,620 as of September 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$19,821,082 while the governmental activities' net assets are \$46,070,538.

The largest portion of the City's net assets (81%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress 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, and with exception of business type assets, do not generate direct revenue for the City. 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.

Table 1
Net Assets

	Government Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other	\$ 26,305,777	\$ 30,432,287	\$ 4,218,640	\$ 4,563,014	\$ 30,524,417	\$ 34,995,301
Capital assets	69,242,852	69,373,769	17,979,366	19,060,521	87,222,218	88,434,290
Total Assets	95,548,629	99,806,056	22,198,006	23,623,535	117,746,635	123,429,591
Long-term Liabilities	40,465,136	41,286,692	1,243,009	1,321,364	41,708,145	42,608,056
Other Liabilities	9,012,955	11,454,939	1,133,915	934,643	10,146,870	12,389,582
Total Liabilities	49,478,091	52,741,631	2,376,924	2,256,007	51,855,015	54,997,638
Net Assets:						
Invested in capital						
Net of related debt	36,887,507	39,944,128	16,769,366	17,765,521	53,656,873	57,709,649
Restricted	5,622,243	4,351,532	-	-	5,622,243	4,351,532
Unrestricted	3,560,788	2,768,765	3,051,716	3,602,007	6,612,504	6,370,772
Total net assets	\$ 46,070,538	\$ 47,064,425	\$ 19,821,082	\$ 21,367,528	\$ 65,891,620	\$ 68,431,953

2010 Restated

An additional portion of the City's net assets, \$5,622,243, represents resources that are subject to external restrictions on how they may be used; the remaining balance of \$6,612,504 may be used to meet the government's ongoing obligations to citizens and creditors. A summary of the City's operations for the year ended September 30, 2011 is provided in Table 2.

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

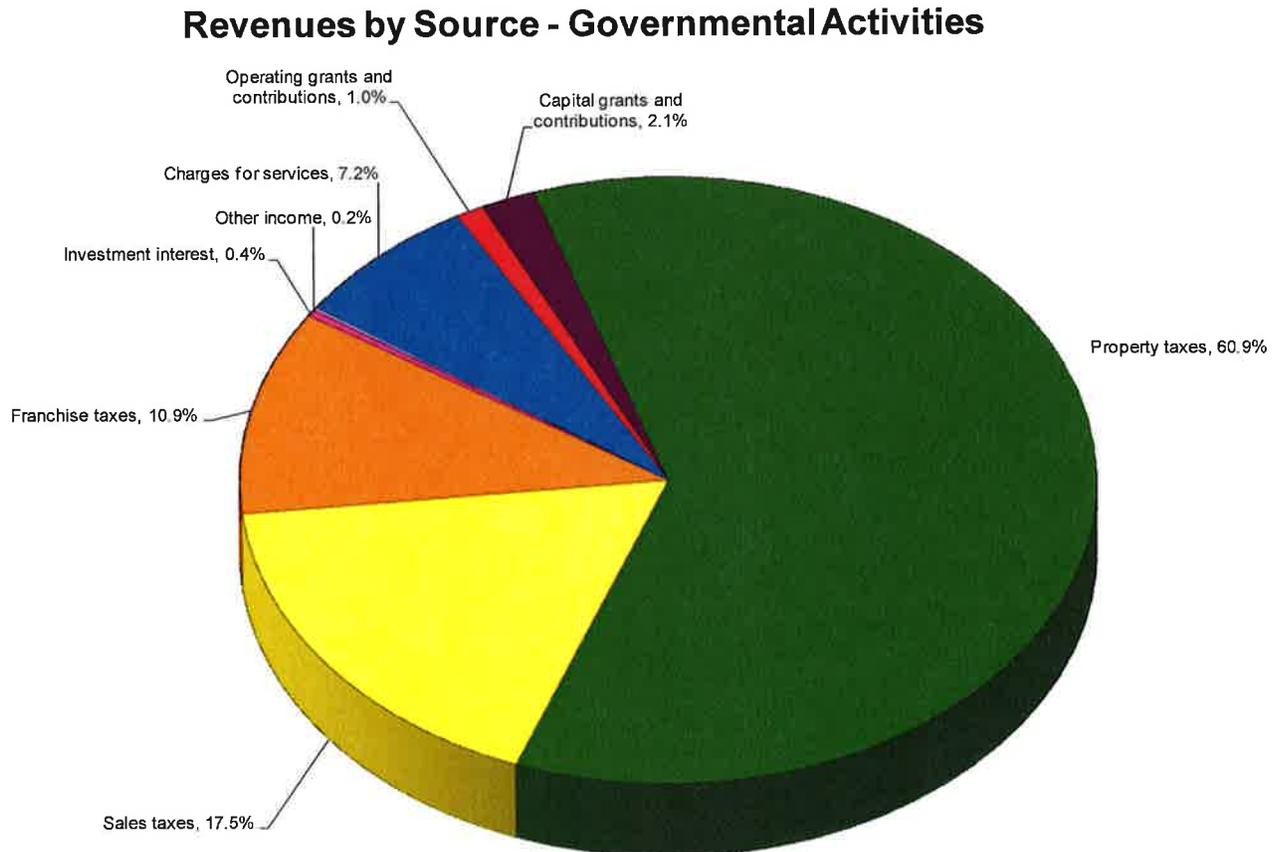
**Table 2
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue:						
Program revenue						
Charges for services	\$ 1,013,945	\$ 1,095,752	\$ 6,168,611	\$ 5,273,953	\$ 7,182,556	\$ 6,369,705
Operating grants and contributions	146,815	128,218	-	-	146,815	128,218
Capital grants and contributions	293,001	272,333	83,943	385,859	376,944	658,192
General revenue						
Property tax	8,614,447	8,526,042	-	-	8,614,447	8,526,042
Sales and other taxes	2,473,170	1,862,552	-	-	2,473,170	1,862,552
Franchise taxes	1,541,153	1,083,810	-	-	1,541,153	1,083,810
Beverage taxes	17,157	19,565	-	-	17,157	19,565
Unrestricted investment earnings	50,297	279,896	3,010	22,281	53,307	302,177
Miscellaneous revenue	5,473	75,326	3,069	-	8,542	75,326
Total revenue	14,155,458	13,343,494	6,258,633	5,682,093	20,414,091	19,025,587
Program expenses:						
General government	2,650,864	2,234,555	-	-	2,650,864	2,234,555
Public safety	5,990,913	5,529,604	-	-	5,990,913	5,529,604
Public works	3,489,615	5,182,386	-	-	3,489,615	5,182,386
Culture and recreation	1,343,744	1,234,883	-	-	1,343,744	1,234,883
Community development	627,009	630,764	-	-	627,009	630,764
Interest on long-term debt	1,910,952	1,932,003	-	-	1,910,952	1,932,003
Water and sewer operations	-	-	6,941,327	5,952,236	6,941,327	5,952,236
Total expenses	16,013,097	16,744,195	6,941,327	5,952,236	22,954,424	22,696,431
Excess before transfers	(1,857,639)	(3,400,701)	(682,694)	(270,143)	(2,540,333)	(3,670,844)
Transfers in	863,752	863,752	-	-	863,752	863,752
Transfers out	-	-	(863,752)	(863,752)	(863,752)	(863,752)
Increase (decrease) in net assets	(993,887)	(2,536,949)	(1,546,446)	(1,133,895)	(2,540,333)	(3,670,844)
Net assets - beginning	47,064,425	49,601,374	21,367,528	22,501,423	68,431,953	72,102,797
Net assets - ending	\$ 46,070,538	\$ 47,064,425	\$ 19,821,082	\$ 21,367,528	\$ 65,891,620	\$ 68,431,953

2010 Restated

Governmental Activities

Revenues – The following chart visually illustrates the City's revenue by sources for governmental activities.

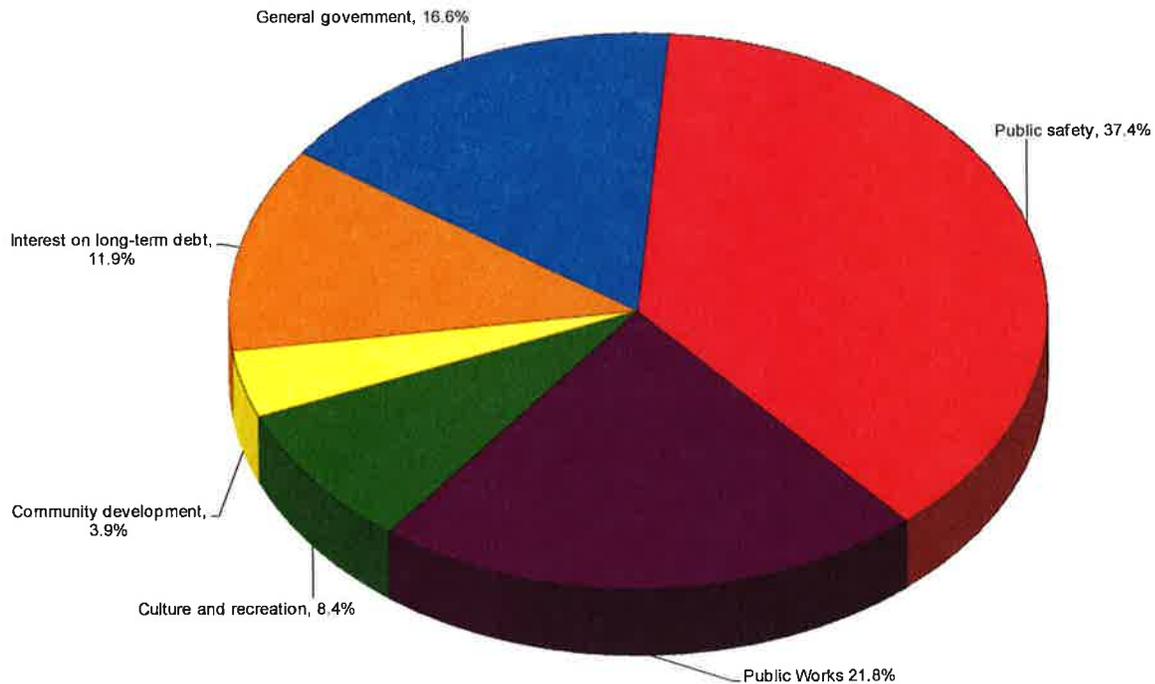


Revenues for the City's governmental activities increased by \$811,964 or 6%. Major components of revenue decreases/increases are explained as follows:

- Property taxes increased by 1% or \$88,405. This nominal increase is from new construction; the city's tax rate was unchanged from the previous fiscal year, and there was a slight decrease in valuation of existing property.
- Charges for services decreased by 7% or \$81,807 which is primarily related to a decrease in the issuance of permits and the decrease in municipal court fines.
- Sales, franchise and beverage taxes increased by 36% or \$1,065,553. The City's franchise revenue continues to increase as a result of growth in end users. Sales tax experienced an increase due to an increase in retail sales. The economic development incentives are in place in accordance with the Texas Economic Development 380 Act.
- Investment earnings, which are in the other category of general revenues, declined \$229,599 due to spending down of funds from the 2009 bond issuance for construction of street improvements and the municipal complex and record low interest rates.

Expenditures – The following chart visually illustrates the City's expenditures by function for governmental activities.

Expenditures by Function - Governmental Activities



Expenses for governmental activities decreased by \$731,098 or 4%. Components of increases and decreases are explained as follows:

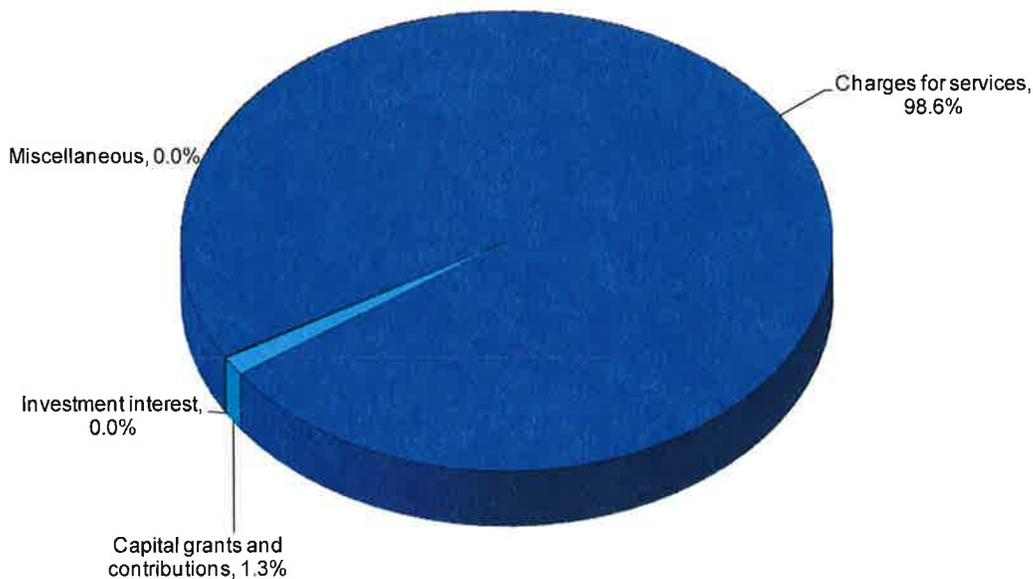
- General Government increased by \$416,309 or 19%
- Public Safety increased by \$461,309 or 8%
- Public Works decreased by \$1,692,771 or 33%
- Culture and Recreation increased by \$108,861 or 9%
-

The increase in expenses for General Government, Public Safety, and Culture and Recreation was due to construction costs related to the municipal complex; likewise, the decrease in expenditures for Public Works was due to a lull in street improvement projects during the period.

Business-type Activities:

Revenues – The following chart visually illustrates the City's revenue by source for business-type activities.

Revenues by Source - Business-type Activities



Business-type revenues decreased \$576,540 or 10%. Major components of the decreases/increases are as follows:

- Charges for services increased by 17% or \$894,658 due to increased billed consumption of water and a full year of the rate increase approved by City Council in July 2010.
- Capital grants and contributions decreased by 78% or \$301,916 which is from infrastructure assets contributed by the development community.
- Investment earnings decreased by 86% or \$19,271 for business-type activities because of a weak market during the fiscal year and a decrease in reserve funds.

Expenses for business-type activities increased by \$989,091 or 17% due to increased contractual expenses for sewer treatment by the City of Garland and water supply purchased from North Texas Municipal Water District.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

The focus of the City of Sachse'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 in the next fiscal year.

At the end of the current fiscal year, the City of Sachse's governmental funds reported combined ending fund balances of \$16,988,774, a decrease of \$1,666,840 in comparison with the prior year's restated balance. Approximately 12% or \$2,065,448 of this total amount constitutes unassigned fund balances. The unassigned funds are summarized below:

General fund	\$ 3,194,885
PGBT Reinvestment Zone	(1,129,437)
Total Unassigned	<u>\$ 2,065,448</u>

The general fund is the main operating fund of the City of Sachse and at the end of the current fiscal year, unassigned fund balance of the general fund was \$3,194,885. There was a 5% increase or \$143,288 in unassigned general fund balance over last year. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The fund balance of General Fund represents 30% of total general fund expenditures.

The fund balance of the City of Sachse's general fund increased by \$165,632 after transfers. This increase is primarily attributable to an increase in sales and franchise taxes.

The Debt Service Fund had an ending fund balance of \$578,537 at 9/30/11 compared to the previous year's balance of \$574,621. There was a net decrease in fund balance in the Special Revenue Fund of \$70,176; the balance at year-end was \$1,308,892. This decrease is due to an intra-governmental transfer of \$111,789 to the Capital Projects Fund for completion of the Salmon Park renovations. The PGBT Reinvestment Zone TIF had a net increase in fund balance of \$13,979.

The Capital Project Fund ending fund balance is \$13,021,181. Sales tax proceeds that are set aside specifically for infrastructure projects as well as voter approved bond projects are recorded in this fund. During the year the City expended \$3,187,154 on various roadway projects and the municipal complex venture from the Capital Project Fund. The 2006 bond package authorized new municipal facilities as well as parks and transportation projects. Construction on the buildings of the municipal complex was completed during the fiscal year, with landscape and finishing continuing into FY2012. Street projects included completion of Murphy Road, Dewitt Road, and Hwy 78 and 5th Street intersection; Bunker Hill and 5th Street Widening had continuing activity, with anticipated completion dates beyond FY2011. The City received \$1,737,692 in sales and other taxes to be used toward street infrastructure projects as identified in the City's capital improvement plan.

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

Proprietary funds

The City's proprietary fund or enterprise fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Net assets in the Proprietary Fund totaled \$19,821,082. Unrestricted net assets of the enterprise fund at the close of the fiscal year amounted to \$3,051,716. The total decrease in net assets for the water and sewer enterprise fund was \$1,546,446. The investment in capital assets, net of related debt is \$16,769,366. The capital assets of the water and sewer enterprise fund total \$39,742,853 at original cost and after depreciation the value is \$17,979,366. The City operates and maintains a water and sewer distribution system with force mains and lift stations. The City has six water storage facilities with a total capacity of approximately 6.9 million gallons. Other factors concerning the finances of the water and sewer enterprise fund have already been addressed in the discussion of the City's business-type activities. However, the following are additional comments regarding operations of the enterprise fund:

- Capital Improvements were \$91,904 which is all classified as construction in progress at 9/30/11.
- Operational expenses excluding depreciation and amortization were \$5,741,246 while the total was \$6,888,172.
- Cash and cash equivalents in the enterprise fund were \$1,907,774 at fiscal year end.

General Fund Budgetary Highlights

The difference of \$10,000 between the original and final budget, as shown on page 65, was caused by an account numbering discrepancy during software conversion. There were no changes to the original budget. There was a negative variance of \$97,868 under budgeted general fund revenues. The following are additional comments regarding appropriations:

- There was a positive variance of \$275,186 in budgeted appropriations with the largest positive variance in non-departmental(city-wide) of \$87,203. This savings is from personnel and benefits as a result of turnover and delay in hiring.
- \$698,120 is the deficit of revenues under expenditures before transfers.
- As stated in an earlier discussion the net positive change in fund balance was \$165,632.

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Sachse's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounts to \$87,222,218 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, park improvements and infrastructure. The City's investment in capital assets decreased in the current fiscal year by 1% (0% for governmental activities and -6% for business-type activities) or \$974,637 (net of depreciation). Additional information on the City of Sachse's capital assets can be found in notes to the financial statements of this report. Major capital asset events during the current fiscal year included the following: 1) For governmental activities, Bunker Hill Road improvements, 5th Street widening, and construction on the municipal campus; 2) For the business-type activities, a capital improvements study was undertaken, but no significant projects were completed, resulting in the decrease to net assets.

The following table summarizes the capital asset balances at year end September 30, 2011:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,237,774	\$ 1,237,774	\$ 346,821	\$ 346,821	\$ 1,584,595	\$ 1,584,595
Construction in progress	5,925,395	14,425,918	140,269	74,498	6,065,664	14,500,416
Buildings	17,502,701	8,464,408	100,405	113,141	17,603,106	8,577,549
Park improvements	1,625,853	1,734,335	-	-	1,625,853	1,734,335
Infrastructure	41,372,973	42,122,533	17,172,144	18,252,745	58,545,117	60,375,278
Vehicles and equipment	1,067,325	1,150,221	213,582	258,862	1,280,907	1,409,083
Other equipment	510,831	538,581	6,145	14,454	516,976	553,035
Total	\$69,242,852	\$69,673,770	\$17,979,366	\$19,060,521	\$87,222,218	\$88,734,291

More detailed information regarding the City of Sachse's capital asset activity can be found in the notes to the financial statements on pages 53-55.

**CITY OF SACHSE, TEXAS
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(UNAUDITED)**

Long-term debt

At the end of the current fiscal year, the City of Sachse had total bonded debt obligations of \$41,360,000. Of this amount, \$1,210,000 is self-supporting through revenues collected from the rates of the City's enterprise fund or utility fund. All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the enterprise/utility system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions. The following table provides additional information on the City's outstanding long-term obligations:

**Table 4
Outstanding Debt at Year-end
Bonds and Other Long Term Debt**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Gross Bonded Debt						
General obligation	\$39,235,000	\$39,935,000	\$ -	\$ -	\$39,235,000	\$39,935,000
Certificates of obligation	915,000	1,080,000	1,210,000	1,295,000	2,125,000	2,375,000
Total Bonded Debt	40,150,000	41,015,000	1,210,000	1,295,000	41,360,000	42,310,000
Other Long-term Debt						
Compensated absences	350,801	309,234	33,009	26,364	383,810	335,598
Total	\$40,500,801	\$41,324,234	\$1,243,009	\$1,321,364	\$41,743,810	\$42,645,598

The City's bonds are insured resulting in an A rating. The underlying rating from both Moody's Investors Service and Standard and Poor's for the City's General Obligation Bonds, and Certificates of Obligation are shown below in Table 5. Additional information on the City's long-term debt can be found in Note 5.

**Table 5
Bond Ratings**

	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	A2	AA-/Stable
Certificates of Obligation	Not rated	AA-(SPUR)/Stable

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sachse increased the 2011-2012 tax rate to \$.770819 per \$100 of assessed value. In the fiscal year 2011-2012 Budget, General fund revenues are budgeted to increase by approximately 8.8%(before intragovernmental transfers). The increase is primarily from property tax generated by the aforementioned increase; \$750,000 of the increase in property tax revenue has been earmarked for transfer to the Capital Project Fund for infrastructure improvement projects. Property taxes make up about 67% of the total General Fund revenues for fiscal year 2011-2012. The City will focus on transportation improvements impacting traffic flow throughout the city thoroughfare. The City looks to increase traffic capacity by improving the road volume throughout the city.

Future operational and capital budgets and tax rate planning will be of utmost importance as the City continues to grow. The City, like most of the north Texas area, has experienced the economic impact of the down turn in the housing market. The City will continue to work toward diversifying its revenue base with a mix of residential and commercial development that will generate additional revenues to replace residential permitting fees that the City has been dependent on for the last five to ten years. During the year ended September 30, 2011, Walmart announced its intention to open a Super Center in Sachse in 2013, and plans were submitted for construction of a McDonald's on Highway 78. However, the City continues to see the development community continue to plat and provide buildable residential properties in the City. Commercial retailers and businesses continue to be attracted to Sachse according to the City's economic development leaders. In the near term future budgets will be impacted positively with the development of the President George Bush Turnpike TIF Zone.

- The City continues to maintain a fund balance equal to or greater than 15% of operating expenditures in all governmental fund types. The policy objectives are to maintain a minimum of a 15% reserve in all operating funds.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance at 3815-B Sachse Rd., Sachse Texas 75048 or call 972-495-1212.



BASIC FINANCIAL STATEMENTS



CITY OF SACHSE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
<i>Cash and Cash Equivalents</i>	\$ 25,378,609	\$ 1,907,774	\$ 27,286,383	\$ 17,218,053
<i>Receivables (net of allowances for uncollectibles):</i>	1,483,802	1,347,988	2,831,790	1,340,624
<i>Advance from/to other funds</i>	(920,045)	920,045	--	--
<i>Inventories</i>	--	27,900	27,900	225,999
<i>Prepaid items</i>	14,716	--	14,716	202
<i>Deferred charges</i>	348,695	14,933	363,628	--
Capital assets (net of accumulated depreciation):				
<i>Land</i>	1,237,774	346,821	1,584,595	--
<i>Rights-of-way</i>	7,516,680	--	7,516,680	--
<i>Construction in progress</i>	5,925,395	140,269	6,065,664	--
<i>Buildings and improvements</i>	17,502,701	100,405	17,603,106	--
<i>Office equipment</i>	510,831	6,145	516,976	--
<i>Machinery and equipment and vehicles</i>	1,067,325	213,582	1,280,907	--
<i>Parks improvements</i>	1,625,853	--	1,625,853	--
<i>Bridge improvements</i>	656,939	--	656,939	--
<i>Street infrastructure</i>	33,199,354	--	33,199,354	--
<i>Water and sewer system infrastructure</i>	--	17,172,144	17,172,144	--
Total Assets	95,548,629	22,198,006	117,746,635	18,784,878
LIABILITIES:				
<i>Accounts payable and accrued liabilities</i>	740,298	965,601	1,705,899	14,799,316
<i>Retainage payable</i>	189,516	25,908	215,424	--
<i>Accrued interest payable</i>	234,674	6,234	240,908	--
<i>Unearned revenue</i>	7,624,586	--	7,624,586	--
<i>Customer deposits</i>	223,881	136,172	360,053	--
Noncurrent Liabilities-				
<i>Due within one year</i>	1,013,891	97,000	1,110,891	1,365
<i>Due in more than one year</i>	39,451,245	1,146,009	40,597,254	4,530
Total Liabilities	49,478,091	2,376,924	51,855,015	14,805,211
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	36,887,507	16,769,366	53,656,873	--
Restricted For:				
Debt Service	596,832	--	596,832	--
Capital Projects	5,025,411	--	5,025,411	--
Unrestricted	3,560,788	3,051,716	6,612,504	3,979,667
Total Net Assets	\$ 46,070,538	\$ 19,821,082	\$ 65,891,620	\$ 3,979,667

The accompanying notes are an integral part of this statement.

CITY OF SACHSE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
<i>General government</i>	\$ 2,650,864	\$ 88,284	\$ --	\$ --
<i>Public safety</i>	5,990,913	475,200	124,953	--
<i>Public works</i>	3,489,615	2,997	--	228,736
<i>Culture and Recreation</i>	1,343,744	70,676	21,862	64,265
<i>Community development</i>	627,009	376,788	--	--
<i>Interest on Long-term Debt</i>	1,910,952	--	--	--
Total Governmental Activities	<u>16,013,097</u>	<u>1,013,945</u>	<u>146,815</u>	<u>293,001</u>
Business-type Activities:				
Water and Sewer Enterprise	6,941,327	6,168,611	--	83,943
Total Primary Government	<u>\$ 22,954,424</u>	<u>\$ 7,182,556</u>	<u>\$ 146,815</u>	<u>\$ 376,944</u>
COMPONENT UNIT:				
Economic Development	<u>\$ 15,167,672</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
General Revenues:				
<i>Property taxes</i>				
<i>Sales taxes</i>				
<i>Franchise taxes</i>				
<i>Beverage taxes</i>				
<i>Unrestricted investment earnings</i>				
<i>Miscellaneous revenue</i>				
<i>Transfers</i>				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Prior Period Adjustment				
Net Assets - Ending				

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit
\$ (2,562,580)		\$ (2,562,580)	
(5,390,760)		(5,390,760)	
(3,257,882)		(3,257,882)	
(1,186,941)		(1,186,941)	
(250,221)		(250,221)	
(1,910,952)		(1,910,952)	
<u>(14,559,336)</u>		<u>(14,559,336)</u>	
	\$ (688,773)	(688,773)	
<u>--</u>	<u>(688,773)</u>	<u>(15,248,109)</u>	
			\$ (15,167,672)
8,614,447	--	8,614,447	--
2,473,170	--	2,473,170	16,006,959
1,541,153	--	1,541,153	--
17,157	--	17,157	--
50,297	3,010	53,307	4,128
5,473	3,069	8,542	--
863,752	(863,752)	--	--
<u>13,565,449</u>	<u>(857,673)</u>	<u>12,707,776</u>	<u>16,011,087</u>
(993,887)	(1,546,446)	(2,540,333)	843,415
46,493,871	21,367,528	67,861,399	3,136,252
570,554	--	570,554	--
<u>\$ 46,070,538</u>	<u>\$ 19,821,082</u>	<u>\$ 65,891,620</u>	<u>\$ 3,979,667</u>

CITY OF SACHSE, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General Fund	Debt Service
	<u> </u>	<u> </u>
ASSETS		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 2,679,958	\$ 575,274
Receivables (net of allowances for uncollectibles):		
<i>Ad valorem taxes</i>	72,775	21,821
<i>Services accounts receivable</i>	57,748	--
<i>Franchise taxes</i>	357,010	--
<i>Sales taxes</i>	194,922	--
<i>Other</i>	639,431	--
<i>Prepaid items</i>	14,716	--
	<u> </u>	<u> </u>
Total Assets	\$ 4,016,560	\$ 597,095
	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 632,003	\$ 262
<i>Retainage payable</i>	2,726	--
<i>Advances from other funds</i>	--	--
<i>Deferred revenue</i>	171,730	18,296
<i>Customer deposits</i>	500	--
Total Liabilities	<u>806,959</u>	<u>18,558</u>
	<u> </u>	<u> </u>
Fund Balances:		
<i>Nonspendable</i>	14,716	--
<i>Restricted</i>	--	--
<i>Committed</i>	--	578,537
<i>Unassigned</i>	3,194,885	--
Total Fund Balance (Deficit)	<u>3,209,601</u>	<u>578,537</u>
	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	\$ 4,016,560	\$ 597,095
	<u> </u>	<u> </u>

The accompanying notes are an integral part of this statement.

<u>Capital Projects</u>	<u>PGBT Reinvestment Zone TIF</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
\$ 20,782,869	\$ 13,989	\$ 1,326,519	\$ 25,378,609
--	--	--	94,596
--	--	--	57,748
--	--	--	357,010
138,310	--	--	333,232
--	--	1,785	641,216
--	--	--	14,716
<u>\$ 20,921,179</u>	<u>\$ 13,989</u>	<u>\$ 1,328,304</u>	<u>\$ 26,877,127</u>
\$ 98,744	\$ --	\$ 9,290	\$ 740,299
186,790	--	--	189,516
--	920,045	--	920,045
7,614,464	--	10,122	7,814,612
--	223,381	--	223,881
<u>7,899,998</u>	<u>1,143,426</u>	<u>19,412</u>	<u>9,888,353</u>
--	--	--	14,716
13,021,181	--	1,308,892	14,330,073
--	--	--	578,537
--	(1,129,437)	--	2,065,448
<u>13,021,181</u>	<u>(1,129,437)</u>	<u>1,308,892</u>	<u>16,988,774</u>
<u>\$ 20,921,179</u>	<u>\$ 13,989</u>	<u>\$ 1,328,304</u>	<u>\$ 26,877,127</u>



CITY OF SACHSE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

Total fund balances - governmental funds balance sheet	\$ 16,988,774
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	69,242,852
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	79,613
Payables for bond principal which are not due in the current period are not reported in the funds.	(40,131,210)
Payables for bond interest which are not due in the current period are not reported in the funds.	(234,673)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(350,801)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	16,875
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	348,694
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	52,666
Ambulance receivables unavailable to pay for current period expenditures are deferred in the funds.	57,748
Net assets of governmental activities - Statement of Net Assets	<u>\$ 46,070,538</u>

The accompanying notes are an integral part of this statement.

CITY OF SACHSE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Debt Service
Revenue:		
Advalorem taxes, penalties and interest	\$ 6,493,314	\$ 2,093,342
Sales taxes	735,478	--
Franchise taxes	1,541,153	--
Beverage taxes	17,157	--
Fines	295,574	--
Licenses, permits and fees	676,507	--
Gifts and contributions	145,560	--
Impact and development fees	--	--
Interest and investment earnings	2,008	934
Miscellaneous	28,121	--
Total revenues	<u>9,934,872</u>	<u>2,094,276</u>
Expenditures:		
Current:		
General Government	1,205,242	--
Public Safety	5,361,199	--
Public works	1,295,120	--
Cultural and recreation	1,084,962	--
Community development	623,017	--
Nondepartmental	1,063,452	--
Capital Outlay	--	--
Debt Service:		
Principal	--	865,000
Interest and Fiscal Charges	--	1,891,787
Fiscal Agent's Fees	--	573
Total Expenditures	<u>10,632,992</u>	<u>2,757,360</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(698,120)</u>	<u>(663,084)</u>
Other Financing Sources (Uses):		
Transfers In	863,752	667,000
Transfers Out	--	--
Total Other Financing Sources (Uses)	<u>863,752</u>	<u>667,000</u>
Net Change in Fund Balances	165,632	3,916
Fund Balances (Deficit) - Beginning	3,101,412	574,621
Increase (Decrease) in Fund Balance	<u>(57,443)</u>	<u>--</u>
Fund Balances (Deficit) - Ending	<u>\$ 3,209,601</u>	<u>\$ 578,537</u>

The accompanying notes are an integral part of this statement.

Capital Projects	PGBT Reinvestment Zone TIF	Special Revenue	Total Governmental Funds
\$ --	\$ 13,979	\$ --	\$ 8,600,635
1,737,692	--	--	2,473,170
--	--	--	1,541,153
--	--	--	17,157
--	--	20,233	315,807
--	--	13,585	690,092
179,208	--	63,002	387,770
--	--	52,046	52,046
45,114	--	2,241	50,297
180	--	--	28,301
<u>1,962,194</u>	<u>13,979</u>	<u>151,107</u>	<u>14,156,428</u>
--	--	69,386	1,274,628
--	--	12,804	5,374,003
--	--	14,000	1,309,120
--	--	13,324	1,098,286
--	--	--	623,017
--	--	--	1,063,452
3,187,154	--	--	3,187,154
--	--	--	865,000
--	--	--	1,891,787
--	--	--	573
<u>3,187,154</u>	<u>--</u>	<u>109,514</u>	<u>16,687,020</u>
(1,224,960)	13,979	41,593	(2,530,592)
111,769	--	--	1,642,521
(667,000)	--	(111,769)	(778,769)
<u>(555,231)</u>	<u>--</u>	<u>(111,769)</u>	<u>863,752</u>
(1,780,191)	13,979	(70,176)	(1,666,840)
14,410,810	(1,143,416)	1,379,068	18,322,495
390,562	--	--	333,119
<u>\$ 13,021,181</u>	<u>\$ (1,129,437)</u>	<u>\$ 1,308,892</u>	<u>\$ 16,988,774</u>



CITY OF SACHSE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds	\$ (1,666,840)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,996,585
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,127,501)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	13,812
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	865,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(17,272)
(Increase) decrease in accrued interest from beginning of period to end of period.	(1,320)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(41,567)
Certain fine revenues are deferred in the funds. This is the change in these amounts this year.	(3,527)
Certain ambulance receivables are deferred in the funds. This is the change in these amounts this year.	(11,256)
Change in net assets of governmental activities - Statement of Activities	<u>\$ (993,887)</u>

The accompanying notes are an integral part of this statement.

CITY OF SACHSE, TEXAS

STATEMENT OF NET ASSETS

ENTERPRISE FUND

SEPTEMBER 30, 2011

	Enterprise Fund <u>Water and Sewer Enterprise</u>
ASSETS:	
Current Assets:	
<i>Cash and Cash Equivalents</i>	\$ 1,907,774
Receivables	
Accounts (net of allowances for uncollectible)	1,345,956
Other	2,032
<i>Advances to other funds</i>	920,045
<i>Inventories</i>	27,900
Total Current Assets	<u>4,203,707</u>
Noncurrent Assets:	
<i>Deferred charges</i>	14,933
Property, Plant and Equipment	
<i>Land</i>	346,821
<i>Construction in progress</i>	140,269
<i>Buildings</i>	313,503
<i>Office equipment</i>	267,210
<i>Machinery and equipment and vehicles</i>	945,361
<i>Water and sewer system improvements</i>	37,729,689
<i>Less Accumulated Depreciation</i>	<u>(21,763,487)</u>
Net Property, Plant and Equipment	<u>17,979,366</u>
Total Noncurrent Assets	<u>17,994,299</u>
Total Assets	<u>\$ 22,198,006</u>
LIABILITIES:	
Current Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 875,601
<i>Compensated absences payable</i>	7,000
<i>Retainage payable</i>	25,908
<i>Accrued interest payable</i>	6,234
<i>Customer deposits</i>	136,172
<i>Certificates of obligation</i>	90,000
Total Current Liabilities	<u>1,140,915</u>
Noncurrent Liabilities:	
<i>Certificates of obligation</i>	1,120,000
<i>Compensated absences payable</i>	26,009
Total Noncurrent Liabilities	<u>1,146,009</u>
Total Liabilities	<u>2,376,924</u>
NET ASSETS:	
<i>Investment in capital assets, net of related debt</i>	16,769,366
<i>Unrestricted net assets</i>	<u>3,051,716</u>
Total Net Assets	<u>\$ 19,821,082</u>

The accompanying notes are an integral part of this statement.

CITY OF SACHSE, TEXASSTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise Fund
	Water and Sewer Enterprise
OPERATING REVENUES:	
<i>Water sales</i>	\$ 3,782,199
<i>Sewer charges</i>	2,240,823
<i>Connection and tap charges</i>	37,506
<i>Miscellaneous</i>	111,152
Total Operating Revenues	<u>6,171,680</u>
OPERATING EXPENSES:	
<i>Personnel</i>	518,262
<i>Supplies and maintenance</i>	320,947
<i>Materials and maintenance</i>	657,959
<i>Operational items</i>	4,172,254
<i>Bad debt expense</i>	71,824
<i>Depreciation and amortization</i>	1,146,926
Total Operating Expenses	<u>6,888,172</u>
Operating Income (Loss)	<u>(716,492)</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Investment income</i>	3,010
<i>Interest Expense</i>	(53,155)
Total Non-operating Revenues (Expenses)	<u>(50,145)</u>
Income Before Capital Contributions and Transfers	<u>(766,637)</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS	
Capital contributions	83,943
Transfers out	(863,752)
Total Operating Expenses	<u>(779,809)</u>
Change in Net Assets	(1,546,446)
Total Net Assets - Beginning	<u>21,367,528</u>
Total Net Assets - Ending	<u>\$ 19,821,082</u>

The accompanying notes are an integral part of this statement.

CITY OF SACHSE, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Water and Sewer Enterprise
Cash Flows from Operating Activities:	
Cash received from customers	\$ 5,886,785
Cash payments to employees for services	(511,617)
Cash payments to other suppliers for goods and services	(5,014,403)
Net Cash Provided (Used) by Operating Activities	<u>360,765</u>
Cash Flows from Non-capital Financing Activities:	
Payments from (to) other funds	(410,072)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(410,072)</u>
Cash Flows from Capital and Related Financing Activities:	
Principal and interest paid	(53,059)
Acquisition or construction of capital assets	(65,771)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(118,830)</u>
Cash Flows from Investing Activities:	
Interest and dividends on investments	3,010
Net Cash Provided (Used) for Investing Activities	<u>3,010</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(165,127)
Cash and Cash Equivalents at Beginning of Year	2,072,901
Cash and Cash Equivalents at End of Year	<u>\$ 1,907,774</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (716,492)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and amortization	1,146,926
Change in Assets and Liabilities:	
Decrease (increase) in receivables	(291,095)
Decrease (increase) in inventories	15,102
Increase (decrease) in accounts payable	167,571
Increase (decrease) in retainage payable	25,908
Increase (decrease) in accrued compensated wages payable	6,645
Increase (decrease) in customer deposits	6,200
Total Adjustments	<u>1,077,257</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 360,765</u>

The accompanying notes are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Sachse (the "City"), was incorporated in 1956 under the provisions of Chapter 11, Title 28, Texas Revised Civil Statutes of 1925 and has adopted a charter making it a home rule city operating under a Council-Manager form of government. The City provides such services as are authorized by its charter to advance the welfare, health, comfort, safety and convenience of the City and its inhabitants.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and by the Financial Accounting Standards Board (when applicable). For proprietary funds, the City has elected to not apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

Financial Reporting Entity

The City is governed by an elected mayor and a six-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39 "Determining Whether Certain Organizations Are Component Units."

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

- A. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
- B. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- C. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to that primary government.

Blended Component Unit

PGBT Reinvestment Zone Tax Increment Fund (TIF) - The City created the TIF in November 2003 to encourage and accelerate planned development along the George Bush Eastern Extension of the Turnpike to the City. The five member Board of Directors are appointed by the Sachse City Council and serve for two-year staggered terms. The members of the Board are citizens of Sachse. Any future debt obligations issued and backed by the TIF are to be repaid from property tax levies, based on the incremental increase in the real property values from the base year 2003.

Since the TIF Board of Directors acts primarily in an advisory role to the Sachse City Council, who exercise the ultimate financial control over the recommendations of the TIF board, the financial information of the TIF is blended as a governmental fund into the primary government. Separate financial statements are not prepared.

Discretely Presented Component Unit

Sachse Economic Development Corporation (SEDC) - The SEDC serves all citizens of the City and is governed by a seven member board of directors appointed by the Sachse City Council. An Executive Director is appointed by the Sachse SEDC seven member board to carry out the Board's administrative and policy initiatives. The Sachse SEDC is a 4B Corporation and is supported by a half-cent sales tax voted by referendum in 1994. The scope of public service of the SEDC benefits the government and its citizens and is operated primarily within geographic boundaries of the City.

Separate financial statements are not prepared. However, additional financial information for the SEDC may be obtained at the entity's administrative offices at the following address: Sachse Economic Development Corporation 3815 Sachse Road, Sachse, Texas 75048.

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The governmental activities of the City include general government, public safety, public works, culture and recreation, and community development.

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

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental funds and proprietary funds. These statements present each major fund as a separate column on the fund financial statements.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for non-matured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are due and payable.

Property taxes, sales taxes, franchise taxes and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

Property taxes, sales taxes, franchise taxes and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

Cash, Cash Equivalents and Investments

State statutes and policy as established by the City Council authorize the City to invest in certificates of deposit, direct obligations of the U.S. Treasury, investment pools consisting of U.S. Treasury obligations, repurchase agreements, commercial paper and mutual funds. Substantially all operating cash and cash equivalents are maintained in pooled cash and time deposit accounts. Interest income relating to pooled deposits is allocated to the individual funds based on each fund's pro rata share of total pooled deposits.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents, as they are available for withdrawal on demand.

Inventories and prepaid items

All inventories are valued at cost using the first-in first-out (FIFO) method. Inventories consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are recorded as expenditures when consumed rather than when purchased.

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

Property Taxes

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and certain personal property located within the City. Property taxes attach as an enforceable lien on property as of January 1 after they are levied. Taxes are due on October 1 and are delinquent after the following January 31.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Allocations of property tax levy to finance general governmental services including the payment of principal and interest on long-term debt for the year ended September 30, 2011 is as follows, per \$100 of assessed valuation:

2010 Tax Levy Rates for Fiscal Year 2011

General Fund	\$ 0.533894
Debt Service Fund	<u>0.171925</u>
Total	\$ <u>0.705819</u>

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

Transactions Between Funds and Between Funds and Component Units

Interfund services are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/ expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except interfund services and reimbursements, are recorded as transfers.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities and component unit columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical costs are not available. Donated assets are valued at fair market value on the date donated.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical costs for the initial reporting of these assets through back trending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset lives are not capitalized. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	25 Years
Machinery and equipment	5-10 Years
Vehicles	5 - 10 Years
Street Infrastructure - Gravel	5 Years
Street Infrastructure - Asphalt	10 Years
Street Infrastructure - Concrete	30 Years

Vacation and Sick Leave (Compensated Absences)

City employees earn vacation and sick leave, which may either be taken or accumulated, up to certain amounts, until retirement or termination. Once per year, employees with accumulations greater than 40 hours may redeem 3 days of sick and vacation leave. Upon termination or retirement, an employee is reimbursed up to a maximum number of hours of unused vacation pay based upon the years of service. Sick leave is not paid at termination or retirement. All vacation and qualifying sick leave 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 are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations and retirements.

Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year 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."

Net Assets and Fund Balance

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.