

DRAFT

ANNUAL FINANCIAL REPORT
OF THE
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2012

City Manager
J. Michael Jones

**CITY OF LAVON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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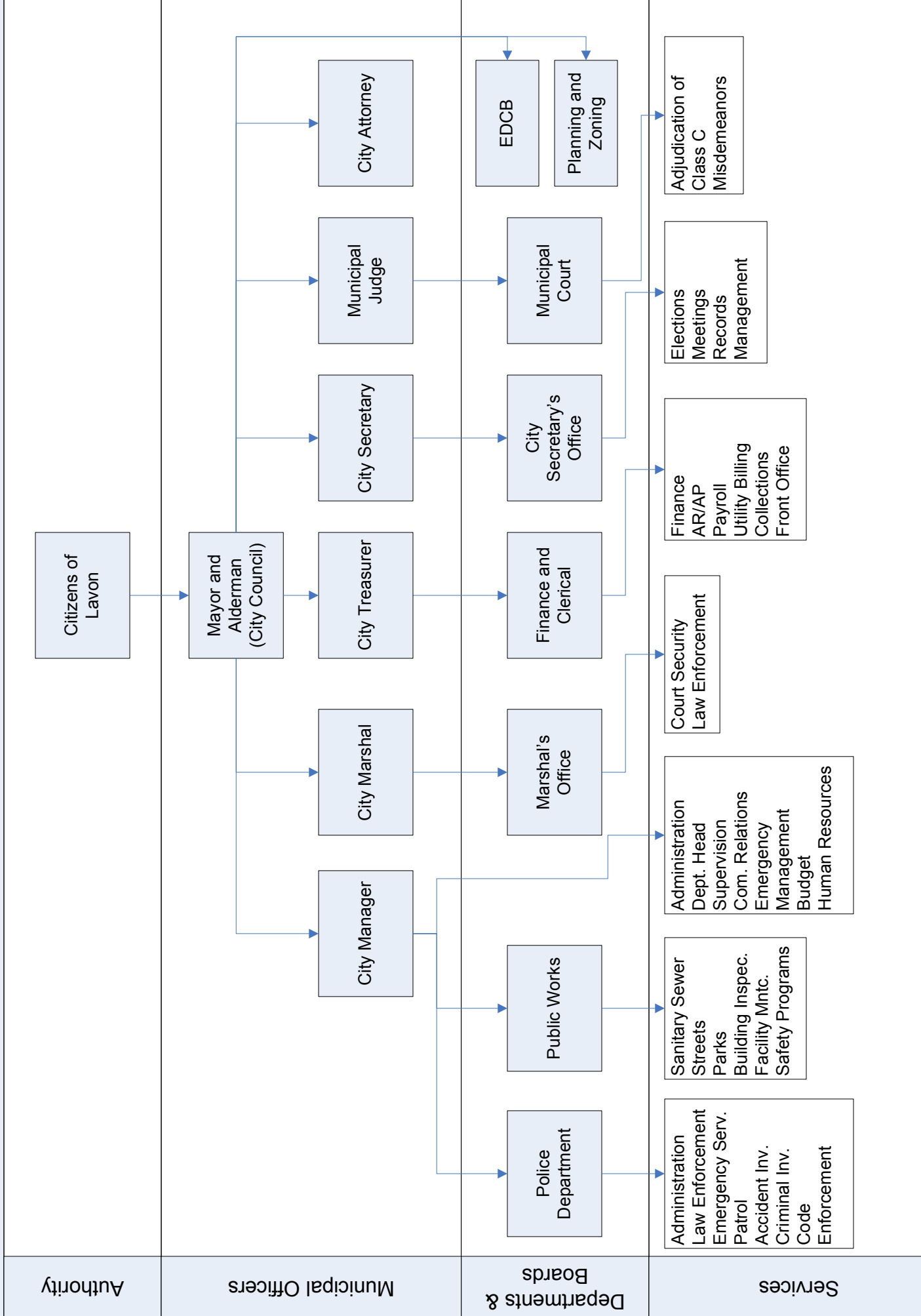
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INTRODUCTORY SECTION

City of Lavon Organization Chart FY 11-12



**City of Lavon, Texas
Principal Officials
September 30, 2012**

City Council

Charles Teske, Jr.	Mayor
Chris Kane	Council member
Deborah Nabors	Council member
Gary Meeks	Council member
David Hawkins	Council member
Jenny Bodwell	Council member

FINANCIAL SECTION



Michael Conway, CPA
Neil Conway, CPA

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American Institute of CPAs
Texas Society of CPAs

October 11, 2013

Independent Auditor's Report on Financial Statements

Mayor and City Council
City of Lavon
Lavon, TX

Mayor and City Council:

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

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

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

In accordance with GOVERNMENT AUDITING STANDARDS, we have also issued our report dated October 11, 2013, on our consideration of the City of Lavon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-15 and the budgetary comparison information on page 45 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 Lavon, Texas' basic financial statements. The introductory section, combining and individual non-major fund financial statements and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and supplementary information 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 section has 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 it.

Respectfully submitted,



Conway Company CPAs, P.C.

CITY OF LAVON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2012

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Lavon exceeded its liabilities at the close of the fiscal year by \$9,049,286 (net assets). Of this amount, \$32,729 is restricted for court and police use. The amount of unrestricted net assets is \$172,619.
- The government's total net assets increased by \$17,419, excluding prior period adjustments, due to an increase in Business-type Funds that exceeded the decrease in Governmental activities net assets.
- As of the close of the current fiscal year, the City of Lavon's governmental funds reported an ending fund balance of (\$203,177), a decrease of \$(213,239), excluding prior period adjustments, in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$(235,906).

Overview of the Financial Statements

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

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2012**

Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 45-46) is provided to show details about the City's budgetary comparison for the General Fund and the City's pension plan. **Supplemental information** (pages 49-55) is also included to provide combining nonmajor fund financial statements for other major governmental funds and component unit information.

Government-wide Financial Statements

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

The Statement of Net 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 Net Assets combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. In order to assess the overall health or financial condition of the City, other non-financial factors should also be taken into consideration. These include 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 most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave, if material value). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit activity. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's wastewater and solid waste system are reported as business-type activities. The final category is the component unit.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. 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. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

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

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

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

The Governmental Fund financial statements can be found on pages 22-25 of this report.

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

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

Notes to the Financial Statements

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

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2012**

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparison information for the General Fund and progress in funding its obligation to provide pension benefits to its employees.

Accounting Changes – The following statement for the Governmental Accounting Standards Board ("GASB") was effective for the City in the fiscal year ending September 30, 2012.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", improves financial reporting by clarifying the appropriate use of the elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

The City of Lavon Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 59,056	\$ 371,472	\$ 727,502	\$ 325,715	\$ 786,558	\$ 697,187
Capital assets	8,889,677	8,871,356	-	-	8,889,677	8,871,356
Total assets	8,948,733	9,242,828	727,502	325,715	9,676,235	9,568,543
Current liabilities	256,786	356,637	192,103	39,437	448,889	396,074
Long-term liabilities	178,060	309,816	-	-	178,060	309,816
Total liabilities	434,846	666,453	192,103	39,437	626,949	705,890
Net assets:						
Invested in capital assets, net of related debt	8,843,938	8,823,022	-	-	8,843,938	8,823,022
Restricted	32,729	89,933	-	-	32,729	89,933
Unrestricted	(362,780)	(336,580)	535,399	286,278	172,619	(50,302)
Total net assets	\$ 8,513,887	\$ 8,576,375	\$ 535,399	\$ 286,278	\$ 9,049,286	\$ 8,862,653

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City of Lavon exceeded liabilities by \$9,049,286 as of September 30, 2012. The City's net assets increased by \$17,419, excluding prior period adjustments, for the fiscal year ended September 30, 2012. However, the largest portion, 98%, reflects the City's investment in capital assets (e.g.land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Lavon uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lavon's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Lavon's net assets, .36%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$172,619 is unrestricted.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

The City of Lavon's Changes in Net Assets

Figure 2

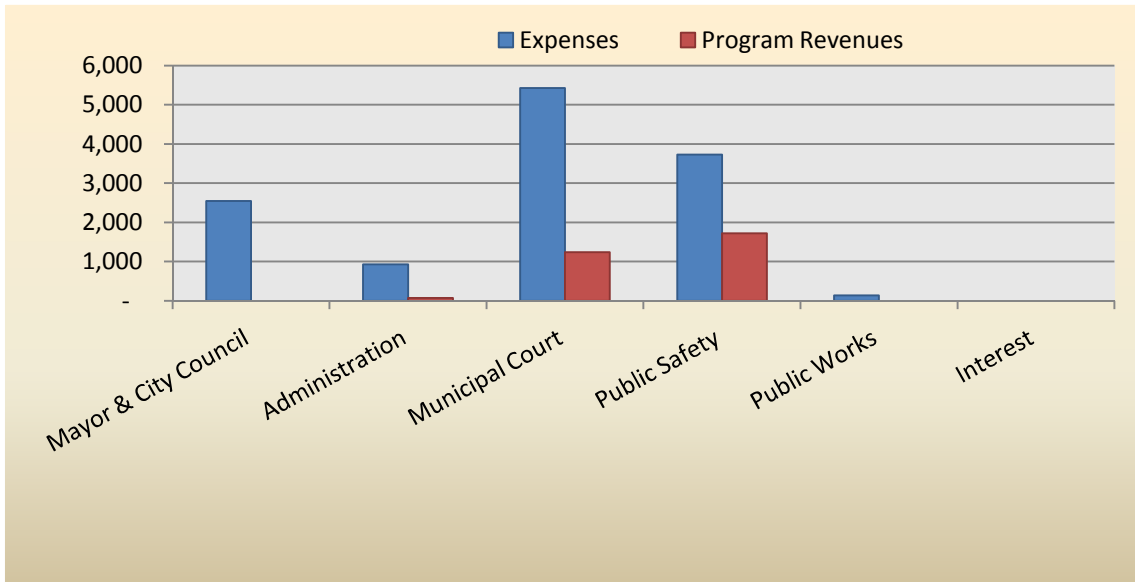
	Governmental Activities		Business Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 358,639	\$ 363,237	\$ 674,582	\$ 642,024	\$ 1,033,221	\$ 1,005,261
General Revenues:						
Property tax	790,511	663,579	-	-	790,511	663,579
Sales tax	103,885	80,149	-	-	103,885	80,149
Franchise tax	88,270	84,700	-	-	88,270	84,700
Investment income	2,556	1,924	61	104	2,617	2,028
Miscellaneous	-	23,259	-	6,971	-	30,230
Total revenues	<u>1,343,861</u>	<u>1,216,848</u>	<u>674,643</u>	<u>649,099</u>	<u>2,018,504</u>	<u>1,865,947</u>
Expenses:						
Program expenses						
Legislative	210,558	293,793	-	-	210,558	293,793
Administration	254,434	274,242	-	-	254,434	274,242
Municipal court	93,074	70,214	-	-	93,074	70,214
Public safety	542,979	607,921	-	-	542,979	607,921
Public works	372,504	404,939	-	-	372,504	404,939
Interest on long-term debt	13,900	12,199	-	-	13,900	12,199
Water and sewer	-	-	513,636	368,619	513,636	368,619
Total expenses	<u>1,487,449</u>	<u>1,663,308</u>	<u>513,636</u>	<u>368,619</u>	<u>2,001,085</u>	<u>2,031,927</u>
Change in net assets before other						
Financing Sources (Uses)	(143,588)	(446,460)	161,007	280,480	17,419	(165,980)
Other financing sources (uses):						
Transfers	(88,114)	79,065	88,114	(79,065)	-	-
Extraordinary Item	-	-	-	-	-	-
Total other financing sources (uses)	<u>(88,114)</u>	<u>79,065</u>	<u>88,114</u>	<u>(79,065)</u>	<u>-</u>	<u>-</u>
Total change in net assets	(231,702)	(367,395)	249,121	201,415	17,419	(165,980)
Net assets - October 1	8,576,375	8,943,770	286,278	84,863	8,862,653	9,028,633
Prior period adjustments	169,214	-	-	-	169,214	-
Net assets - September 30	<u>\$ 8,513,887</u>	<u>\$ 8,576,375</u>	<u>\$ 535,399</u>	<u>\$ 286,278</u>	<u>\$ 9,049,286</u>	<u>\$ 8,862,653</u>

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2012**

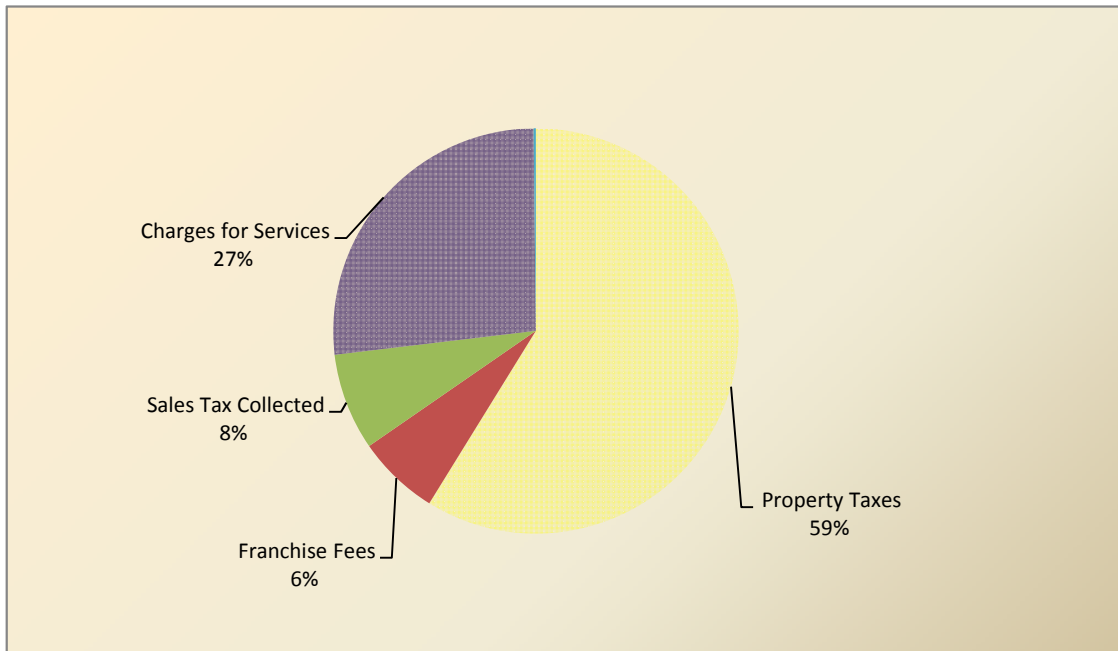
Governmental-type activities - The Governmental Fund decreased the City's net assets by \$(231,702). A key element of this decrease is as follows:

Total expenditures exceeded revenues by \$143,588, or 11%.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities

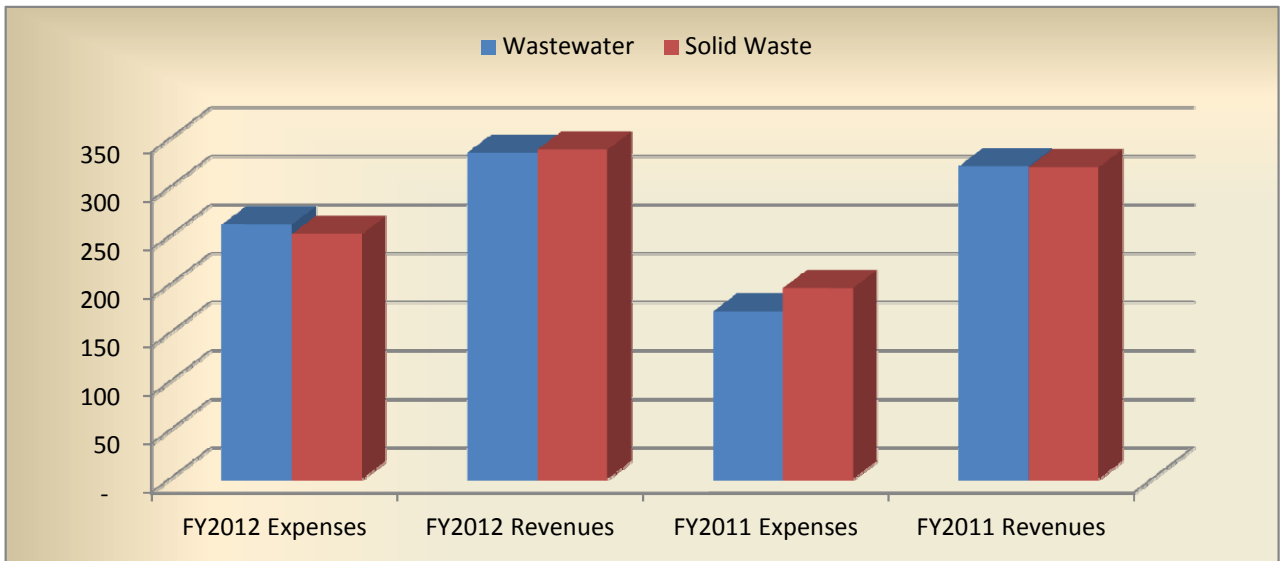


**CITY OF LAVON, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2012**

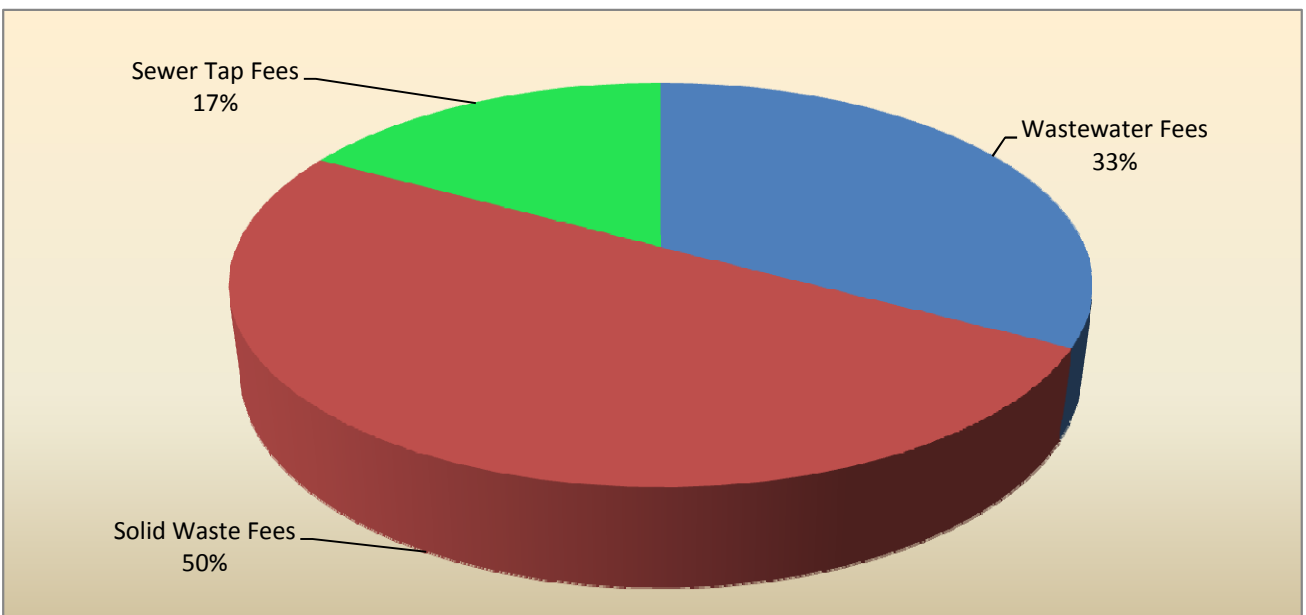
Business-type Activities - Business-type activities increased the City of Lavon's net position by \$249,121. Key elements of this increase are as follows:

Charge for services increased \$32,558, or 5%; and
 Total expenditures for business-type funds were 161,037, or 24%, less than total revenues collected.

Expenditures and Program Revenues - Business-type Activities
 (amounts expressed in thousands)



Revenues by Source - Business-type Activities



**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

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 \$(235,906).

At September 30, 2012, the governmental funds of the City reported total fund balances of (\$203,177), a decrease of (\$213,239), excluding prior period adjustments. The City restricted \$32,729 during the year ended September 30, 2012, of which \$28,088 is for court use and \$4,641 is for police use. This affects the availability of fund resources for future use.

General Fund Budgetary Highlights: During the fiscal year, the City made several revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Overall, revenues were slightly less than the budgeted amounts. Expenditures were also slightly less than the budgeted amounts.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$535,399.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, totals \$8,889,677 (net of accumulated depreciation). These assets include land, buildings & improvements, infrastructure, vehicles and equipment. The City does not report any capital assets for business-type activities.

Major capital asset transactions during the year include the following additions and disposals:

- Purchase of radio for police
- Renovations to City Hall

**City of Lavon
Capital Assets
September 30, 2012
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,871,344	\$ 1,676,872	\$ -	\$ -	\$ 1,871,344	\$ 1,676,872
Buildings & Improvements	426,397	406,684	-	-	426,397	406,684
Infrastructure	6,472,512	6,658,082	-	-	6,472,512	6,658,082
Equipment	35,019	24,650	-	-	35,019	24,650
Vehicles	84,405	105,068	-	-	84,405	105,068
Total	\$ 8,889,677	\$ 8,871,356	\$ -	\$ -	\$ 8,889,677	\$ 8,871,356

More detailed information about the City's capital assets is presented in Note E to the financial statements.

Long-Term Debt - As of September 30, 2012, the City had outstanding long-term debt in the amount of \$157,482, with a decrease of \$152,334.

**City of Lavon
Certificates of Obligation and Revenue Bonds
As of September 30, 2012**

	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Capital Leases Payable	\$ 45,739	\$ 48,334	\$ -	\$ -	\$ 45,739	\$ 48,334
Notes Payable	111,743	261,482	-	-	111,743	261,482
Total	\$ 157,482	\$ 309,816	\$ -	\$ -	\$ 157,482	\$ 309,816

More detailed information about the City's long-term debt is presented in Note G to the financial statements.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2012**

Economic Factors and Next Year's Budgets and Rates

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

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2013, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2012-2013 will increase to a tax rate of \$0.4557 per \$100 valuation.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.

BASIC FINANCIAL STATEMENTS

**CITY OF LAVON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Primary Government</u>			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ -	\$ 297,991	\$ 297,991	\$ 211,528
Receivables (net of allowance for uncollectibles)	58,322	47,511	105,833	-
Prepaid expenses	-	-	-	30,000
Due from City	-	-	-	8,740
Internal balances	(208,114)	208,114	-	-
Restricted assets:				
Cash and cash equivalents	208,848	173,886	382,734	-
Capital assets not being depreciated:				
Land	1,871,344	-	1,871,344	-
Capital assets net of accumulated depreciation:				
Building & improvements	426,397	-	426,397	-
Infrastructure	6,472,512	-	6,472,512	-
Equipment	35,019	-	35,019	-
Vehicles	84,405	-	84,405	-
Total assets	8,948,733	727,502	9,676,235	250,268
LIABILITIES				
Accounts payable	23,885	18,217	42,102	-
Payroll liabilities payable	16,466	-	16,466	-
Sales tax payable	1,620	-	1,620	-
Accrued interest payable	1,089	-	1,089	-
Deferred revenue	30,000	-	30,000	-
Due to EDC	8,740	-	8,740	-
Liabilities payable from restricted assets	174,986	173,886	348,872	-
Non-current liabilities:				
Due within one year:				
Capital lease payable	20,168	-	20,168	-
Note payable	46,834	-	46,834	-
Due in more than one year:				
Compensated absences	20,578	-	20,578	-
Capital lease payable	25,571	-	25,571	-
Note payable	64,909	-	64,909	-
Total liabilities	434,846	192,103	626,949	-
NET ASSETS				
Investment in capital assets, net of related debt	8,843,938	-	8,843,938	-
Restricted for:				
Court	28,088	-	28,088	-
Police	4,641	-	4,641	-
Unrestricted	(362,780)	535,399	172,619	250,268
Total net assets	\$ 8,513,887	\$ 535,399	\$ 9,049,286	\$ 250,268

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

CITY OF LAVON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Program Revenues			
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions
Function/Program Activities				
Primary Government				
Governmental Activities:				
Legislative	\$ 210,558	\$ 55,829	\$ -	\$ -
Administration	254,434	-	-	-
Municipal court	93,074	7,157	-	-
Public safety	542,979	123,842	-	-
Public works	372,504	171,811	-	-
Interest on long-term debt	13,900	-	-	-
Total governmental activities	1,487,449	358,639	-	-
Business-type Activities:				
Wastewater	261,686	335,715	-	-
Solid waste	251,950	338,867	-	-
Total business-type activities	513,636	674,582	-	-
Total primary government	2,001,085	1,033,221	-	-
Component Unit Activities:				
Economic Development Corporation	25,481	-	-	-
Total component unit activities	\$ 25,481	\$ -	\$ -	\$ -

General revenues:

Property tax
Sales & mixed beverage tax
Franchise tax
Investment income
Miscellaneous
Transfers
Total general revenues
Change in net assets
Net assets - beginning
Prior period adjustments
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Activities	Total	Component Unit
\$ (154,729)	\$ -	\$ (154,729)	\$ -
(254,434)	-	(254,434)	-
(85,917)	-	(85,917)	-
(419,137)	-	(419,137)	-
(200,693)	-	(200,693)	-
(13,900)	-	(13,900)	-
<u>(1,128,810)</u>	<u>-</u>	<u>(1,128,810)</u>	<u>-</u>
-	74,029	74,029	-
-	86,917	86,917	-
-	160,946	160,946	-
<u>(1,128,810)</u>	<u>160,946</u>	<u>(967,864)</u>	<u>-</u>
-	-	-	(25,481)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,481)</u>
790,511	-	790,511	-
103,885	-	103,885	47,358
88,270	-	88,270	-
2,556	61	2,617	248
-	-	-	158
(88,114)	88,114	-	-
<u>897,108</u>	<u>88,175</u>	<u>985,283</u>	<u>47,764</u>
(231,702)	249,121	17,419	22,283
8,576,375	286,278	8,862,653	227,985
169,214	-	169,214	-
<u>\$ 8,513,887</u>	<u>\$ 535,399</u>	<u>\$ 9,049,286</u>	<u>\$ 250,268</u>

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

**CITY OF LAVON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2012**

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables (net of allowance for uncollectibles)	58,322	-	58,322
Prepaid expenses	-	-	-
Cash and cash equivalents - restricted	166,890	41,958	208,848
Total assets	225,212	41,958	267,170
LIABILITIES			
Accounts payable	14,656	9,229	23,885
Payroll liabilities payable	16,466	-	16,466
Sales tax payable	1,620	-	1,620
Due to EDC	8,740	-	8,740
Due to Other Fund	208,114	-	208,114
Deferred revenue	36,536	-	36,536
Liabilities payable from restricted assets	174,986	-	174,986
Total liabilities	461,118	9,229	470,347
FUND BALANCES			
Restricted for:			
Court	-	28,088	28,088
Police	-	4,641	4,641
Unassigned	(235,906)	-	(235,906)
Total fund balance	(235,906)	32,729	(203,177)
Total liabilities and fund balances	\$ 225,212	\$ 41,958	\$ 267,170

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

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

Total fund balances - governmental funds balance sheet	\$ (203,177)
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.	10,239,701
Accumulated depreciation has not been included in the governmental fund financial statements.	(1,350,024)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	(1,089)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(20,578)
Revenues in the statements of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	6,536
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(157,482)</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 8,513,887</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General Fund	Other Governmental Funds	Total Governmental Fund
REVENUES			
Taxes:			
Property	\$ 790,974	\$ -	\$ 790,974
Sales	103,885	-	103,885
Franchise	88,270	-	88,270
Intergovernmental revenue	27,975	-	27,975
Licenses and permits	171,811	-	171,811
Fines and fees	126,703	4,296	130,999
Donations	14,840	-	14,840
Investment income	2,556	-	2,556
Total revenues	<u>1,327,014</u>	<u>4,296</u>	<u>1,331,310</u>
EXPENDITURES			
Current operating:			
Legislative	221,121	-	221,121
Administration	246,934	-	246,934
Municipal court	42,268	50,805	93,073
Fire department	45,930	-	45,930
Police	427,071	222	427,293
Public works	166,143	-	166,143
Code enforcement	5,000	-	5,000
Miscellaneous	663	-	663
Debt service:			
Principal retirement	370,343	-	370,343
Interest	13,899	-	13,899
Debt Issuance Costs	7,500	-	7,500
Capital outlays	100,786	-	100,786
Total expenditures	<u>1,647,658</u>	<u>51,027</u>	<u>1,698,685</u>
Excess (deficiency) of revenues over (under) expenditures	(320,644)	(46,731)	(367,375)
Other revenues and financing sources (uses)			
Transfers	(132,155)	44,041	(88,114)
Sale of assets	11,226	-	11,226
Insurance reimbursement	13,014	-	13,014
Note proceeds	218,010	-	218,010
Total other financing sources (uses)	<u>110,095</u>	<u>44,041</u>	<u>154,136</u>
Net change in fund balances	(210,549)	(2,690)	(213,239)
Fund balances, October 1	(33,997)	35,419	1,422
Prior period adjustments	8,640	-	8,640
Fund balances, September 30	<u>\$ (235,906)</u>	<u>\$ 32,729</u>	<u>\$ (203,177)</u>

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ (213,239)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2010 capital outlays is to increase net assets.</p>	100,786
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net assets.</p>	(250,539)
<p>Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.</p>	368,008
<p>Deferred revenue from property taxes is recorded as revenue in the current period in government-wide financial statements</p>	1,870
<p>Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.</p>	(20,578)
<p>In governmental fund financial statements the proceeds from notes payable are shown as an increase in financial resources. In the government-wide financial statements, this is shown as a reduction of the asset.</p>	(188,000)
<p>In governmental fund financial statements the proceeds from capital leases are shown as an increase in financial resources. In the government-wide financial statements, this is shown as a reduction of the asset.</p>	(30,010)
Change in net assets - statement of activities	<u><u>\$ (231,702)</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2012**

	<u>Wastewater Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 190,321	\$ 107,670	\$ 297,991
Receivables (net of allow for uncollectibles)	12,217	35,294	47,511
Due from Other Fund	121,171	86,943	208,114
Cash and cash equivalents - restricted	86,943	86,943	173,886
Total current assets	<u>410,652</u>	<u>316,850</u>	<u>727,502</u>
Total assets	<u><u>410,652</u></u>	<u><u>316,850</u></u>	<u><u>727,502</u></u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable	-	18,217	18,217
Liabilities payable from restricted assets	173,886	-	173,886
Total current liabilities	<u>173,886</u>	<u>18,217</u>	<u>192,103</u>
Total liabilities	<u><u>173,886</u></u>	<u><u>18,217</u></u>	<u><u>192,103</u></u>
NET ASSETS			
Unrestricted	236,766	298,633	535,399
Total net assets	<u><u>\$ 236,766</u></u>	<u><u>\$ 298,633</u></u>	<u><u>\$ 535,399</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Wastewater Utility	Solid Waste Utility	Total
OPERATING REVENUES:			
Charges for services	\$ 335,715	\$ 338,867	\$ 674,582
Total operating revenues	335,715	338,867	674,582
OPERATING EXPENSES:			
Supplies and materials	134,449	8,060	142,509
Contractual services	127,237	220,908	348,145
Sales tax	-	22,982	22,982
Total operating expenses	261,686	251,950	513,636
Operating income (loss)	74,029	86,917	160,946
NON-OPERATING REVENUES (EXPENSES):			
Investment income	61	-	61
Transfers	1,171	86,943	88,114
Total non-operating revenues (expenses)	1,232	86,943	88,175
Change in net assets	75,261	173,860	249,121
Net assets, October 1	161,505	124,773	286,278
Net assets, September 30	\$ 236,766	\$ 298,633	\$ 535,399

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

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

	Wastewater Utility	Solid Waste Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 341,590	\$ 326,448	\$ 668,038
Cash paid to suppliers	(127,237)	(233,733)	(360,970)
Net cash provided by operating activities	<u>214,353</u>	<u>92,715</u>	<u>307,068</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to Other Funds	1,171	86,943	88,114
Due from Other Funds	(121,171)	(86,943)	
Net cash used for non-capital financing activities	<u>(120,000)</u>	<u>-</u>	<u>88,114</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	61	-	61
Net cash provided by investing activities	<u>61</u>	<u>-</u>	<u>61</u>
Net increase (decrease) in cash and cash equivalents	94,414	92,715	187,129
Cash and cash equivalents at beginning of year	182,850	101,898	284,748
Cash and cash equivalents at end of year	<u>\$ 277,264</u>	<u>\$ 194,613</u>	<u>\$ 471,877</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 74,029	\$ 86,917	\$ 160,946
Adjustment to reconcile operating income to net cash provided by operating activities			
Changes in assets and liabilities:			
Decrease (increase) in:			
Receivables	5,875	(12,419)	(6,544)
Increase (decrease) in:			
Accounts payable	-	18,217	18,217
Other liabilities	134,449	-	134,449
Total adjustments	<u>140,324</u>	<u>5,798</u>	<u>146,122</u>
Net cash provided by operating activities	<u>\$ 214,353</u>	<u>\$ 92,715</u>	<u>\$ 307,068</u>

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

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Lavon, Texas ("City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as established by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City's financial activities for the current year.

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-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 Government 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:

1. 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.
2. The primary government, or its component unit, is entitled to, or have the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or have the ability to otherwise access, are significant to the primary government.

Discretely Presented Component Unit - The Lavon Economic Development Corporation ("EDC") is a discretely presented component unit of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City of Lavon and whom can be removed from office by the City Council at its will. The EDC was incorporated in the state of Texas in 2004. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements of the Lavon EDC have been "discretely presented" in the accompanying report because (1) their governing boards are not substantially the same as the governing body of the City, or (2) the component unit provides services entirely or almost entirely to the citizenry and not the City.

2. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

2. Financial Statement Presentation (continued)

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the original adopted and final amended General Fund budget with actual results.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual business-type funds are reported as separate columns in the fund financial statements. The major governmental fund is the General Fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and business-type combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining statements in the supplementary section.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 wastewater and solid waste funds are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service and administrative expenses. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

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

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

3. Basis of Presentation, Basis of Accounting
 - b. Measurement Focus, Basis of Accounting (continued)

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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 fund:

The *General Fund* is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contracted agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's wastewater and solid waste services are charges to customers for sales and services. Operating expenses for Proprietary funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

The City reports the following major proprietary funds:

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

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies (continued)

4. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Receivable and Payable Balances

Interfund Receivables/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" or "due from" other funds for the current portion of interfund loans or "advances to" or "advances from" other funds for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to" or "due from" other funds.

Trade and property tax receivables are shown net of an allowance for uncollectible.

c. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market 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 appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including 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.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 in population limits the ad valorem tax rate to \$2.50 per \$100 assessed value.

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of the other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for Police and Court use.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. As of September 30, 2012, there was no interest capitalized.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	20-50 years
Equipment, including vehicles	5-20 years
Infrastructure	15-100 years

f. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time). All vacation and comp time is accrued at the close of the fiscal year end in the government-wide and proprietary fund financial statements.

g. 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 are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed during the year they are incurred. This is an accounting policy change according to the GASB Statement No. 65 which has been implemented in the current year.

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.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

h. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by laws through constitutional provisions or enabling legislation.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council and remains binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum intended to be used.
- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain unrestricted fund balance in its funds sufficient to fund cash flows and to provide financial reserve for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

A. Summary of Significant Accounting Policies

4. Financial Statement Amounts (continued)

i. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

j. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

k. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

l. Program Revenues

Amounts reported as 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.

m. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None noted	None

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Explanation</u>
General Fund	\$ (235,906)	Expenditures exceeded revenues

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

B. Compliance and Accountability (continued)

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget is included in the Required Supplementary Section.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget for the General Fund is legally adopted on a basis consistent with GAAP. The majority of the City's capital projects are budgeted on an annual basis.
- According to the City Charter, total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Council are the only body that can change the budgeted amounts from one line account to another.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2012, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$680,725 and the bank balance was \$686,227. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012, were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Cash and cash equivalents as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government	
Cash and cash equivalents	\$ 297,991
Restricted assets-cash and cash equivalents	382,734
Total cash and cash equivalents	<u>\$ 680,725</u>
Governmental - Restricted Cash	
Public Improvement Development	\$ 39,465
Collin County Interlocal Agreement	130,638
Court	36,832
Police	1,913
Total Governmental	<u>208,848</u>
Business-type - Restricted Cash	
Sewer Tap Fees	173,886
Total Business-type	<u>173,886</u>
Total Restricted cash	<u>\$ 382,734</u>

C. Deposits and Investments (continued)

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Credit Risk

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

Custodial Credit Risk

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

As of September 30, 2012, the City's deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Concentration of Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

D. Receivables

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

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
Receivables:			
Taxes	\$ 35,223	\$ -	\$ 35,223
Fees and Charges	<u>308,901</u>	<u>52,789</u>	<u>361,690</u>
Gross Receivables	344,124	52,789	396,913
Less: allowance for uncollectible	<u>(285,802)</u>	<u>(5,278)</u>	<u>(291,080)</u>
Net Total Receivables	<u>\$ 58,322</u>	<u>\$ 47,511</u>	<u>\$ 105,833</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

E. Capital Assets

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

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,676,872	\$ 194,472	\$ -	\$ -	\$ 1,871,344
Total capital assets, not being depreciated:	1,676,872	194,472	-	-	1,871,344
Capital assets, being depreciated:					
Buildings & Improvements	554,289	-	70,776	(32,998)	592,067
Infrastructure	7,422,761	-	-	-	7,422,761
Equipment	91,142	-	30,010	(15,849)	105,303
Vehicles	328,683	-	-	(80,457)	248,226
Total capital assets being depreciated	8,396,875	-	100,786	(129,304)	8,368,357
Less accumulated depreciation for:					
Buildings & Improvements	(147,605)	-	(24,665)	6,600	(165,670)
Infrastructure	(764,679)	-	(185,570)	-	(950,249)
Equipment	(66,492)	-	(15,436)	15,849	(66,079)
Vehicles	(223,615)	-	(24,868)	80,457	(168,026)
Total accumulated depreciation	(1,202,391)	-	(250,539)	102,906	(1,350,024)
Total capital assets, being depreciated, net	7,194,484	-	(149,753)	(26,398)	7,018,333
Governmental activities capital assets, net	\$ 8,871,356	\$ 194,472	\$ (149,753)	\$ (26,398)	\$ 8,889,677

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

Governmental activities:	
Police and Fire Protection	\$ 49,533
Public Works	201,006
Total depreciation expense - governmental activities	<u>\$ 250,539</u>

F. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Tax revenues which are reported as deferred revenue in the governmental funds are recorded as revenue in the government-wide financial statements. As of September 30, 2012, the City recorded the following deferred revenue in the governmental funds:

	Governmental
Advance lease receipts	\$ 30,000
Deferred Property tax	6,536
Deferred Revenue	<u>\$ 36,536</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2012, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Leases Payable	\$ 48,334	\$ 30,010	\$ (32,604)	\$ 45,740	\$ 20,168
Notes Payable	261,482	188,000	(337,739)	111,743	46,834
Compensated Absences	-	20,578	-	20,578	-
Governmental activity Long-term liabilities	<u>\$ 309,816</u>	<u>\$ 238,588</u>	<u>\$ (370,343)</u>	<u>\$ 178,061</u>	<u>\$ 67,002</u>

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30			Amounts Outstanding September 30 2012	Due Within One Year
			2011	Issued	Retired		
Interlocal Agreement	5.38%	\$ 180,129	\$ 153,482	\$ -	\$ (41,739)	\$ 111,743	\$ 46,834
2011A Tax Note	3.69%	108,000	108,000	-	(108,000)	-	-
2011B Tax Note	3.20%	188,000	-	188,000	(188,000)	-	-
Ford Motor Company	7.10%	35,999	13,539	-	(13,539)	-	-
CNH Capital	6.79%	22,930	18,623	-	(4,196)	14,427	4,489
Ford Motor Company	6.50%	25,055	16,172	-	(7,832)	8,340	8,340
Motorola Solutions	4.28%	30,010	-	30,010	(7,037)	22,973	7,339
Total Long Term Obligations		<u>\$ 590,123</u>	<u>\$ 309,816</u>	<u>\$ 218,010</u>	<u>\$ (370,343)</u>	<u>\$ 157,483</u>	<u>\$ 67,002</u>

Annual debt service requirements to maturity are as follows -

Year Ending September 30:	Governmental Activities - Notes Payable		
	Principal	Interest	Total Requirements
2013	\$ 46,834	\$ 4,857	\$ 51,691
2014	51,935	2,212	54,147
2015	12,975	116	13,091
Totals	<u>\$ 111,744</u>	<u>\$ 7,185</u>	<u>\$ 118,929</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

G. Long-Term Obligations (continued)

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$35,999 for the purchase of one new police vehicle.

The City incurred a capital lease payable with CNH Capital in the amount of \$22,930 for the purchase of one tractor.

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$25,055 for the purchase of one vehicle for the public works department.

The City incurred a capital lease payable with Motorola Solutions, Inc. in the amount of \$30,010 for the purchase of a radio for the police department.

Capital lease requirements are as follows:

Year Ending <u>September 30</u>	General <u>Fund</u>	Total <u>Requirements</u>
2013	\$ 22,561	\$ 22,561
2014	13,678	13,678
2015	13,701	13,701
Totals	49,940	49,940
Less: Amount Representing Interest	(4,200)	(4,200)
Present Value of Minimum Lease Payments	<u>\$ 45,740</u>	<u>\$ 45,740</u>

Operating Leases

The City has an operating lease with the Lavon Economic Development Corporation to rent office space to the Corporation for \$5,000 annually beginning March 1, 2012 and ending in seven years.

H. Pension Plan

1. Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information ("RSI") for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing TMRS, P O Box 149153, Austin, TX 78714-9153 or by calling 800.924.8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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:

Deposit Rate:	5%
Matching Ratio (City to Employee):	2-1
A member is vested after	5 yrs
The Service Retirement Eligibilities for the City are:	5 yrs/age 60, 20 yrs/any age.
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

H. Pension Plan (continued)

2. 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 for year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

City of Lavon
Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>
Actuarial Value of Assets	\$ 276,767	\$ 359,159	\$ 452,161
Actuarial Accrued Liability	\$ 355,220	\$ 412,813	\$ 467,925
Percentage Funded	77.9%	87%	97%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 78,453	\$ 53,654	\$ 15,764
Annual Covered Payroll	\$ 724,604	\$ 745,485	\$ 710,880
UAAL as a Percentage of Covered Payroll	10.8%	7.2%	2.2%
 Net Pension Obligation (NPO) at the Beginning of Period	 \$ -	 \$ -	 \$ -
Annual Pension Cost:			
Annual required contribution (ARC) Plus	\$ 16,458	\$ 16,458	\$ 32,204
Contributions Made Less	(16,458)	(16,458)	(32,204)
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 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:

Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level % of payroll	Level % of payroll	Level % of payroll
Asset Valuation method	10-year	10-year	10-year
	Smoothed Market	Smoothed Market	Smoothed Market
Amortization period	22.9 yrs-closed	21.7 yrs-closed	20.4 yrs-closed
 Actuarial assumptions:			
Investment rate of return	7.5%	7.0%	7.0%
Inflation rate	3.00%	3.00%	3.00%
Projected salary increase	varies	varies	varies

Pension Plan (continued)

3. Group-term Life Insurance

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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.

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.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

H. Pension Plan

3. Group-term Life Insurance (continued)

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 contribution to the TMRS SDBF for the years ended 2012 and 2011 were \$655 and \$939 respectively.

I. Health Care Coverage

During the year ended September 30, 2012, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed \$403 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

J. Insurance Coverage

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2011, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

J. Risk Management

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

K. Litigation

Currently, management is unaware of significant pending litigation against the City of Lavon, Texas.

L. Interfund Transactions

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Major Funds</u>		
General Fund	\$ -	\$ (132,155)
Other Governmental Funds	44,041	-
Wastewater Utility Fund	-	1,171
Solid Waste Utility Fund	-	86,943
Total Major Funds	<u>\$ 44,041</u>	<u>\$ (44,041)</u>

Transfers are used to 1) transfer debt service payments and 2) transfer fixed assets and fixed asset purchases.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

M. Prior Period Adjustment

During the year ended September 30, 2011, the City swapped two pieces of land from a developer with two pieces of land owned by the City. The land that was traded by the City was valued at \$702,083 in 2010 and then \$2,000 in 2011. The value was reported by the Collin County Appraisal District. The property received was valued at \$194,472. Overall the new land needed to be incorporated into the fixed assets of the City.

N. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2012 up through October 11, 2013, the date the financial statements were available to be issued. During the month of October 2012 the City issued \$160,000 of Tax Notes, Series 2012. There were no other subsequent events requiring disclosure.

O. Lavon Economic Development Corporation

The Lavon Economic Development Corporation ("LEDC") was incorporated December 20, 2004. The LEDC is a non-profit industrial development corporation formed under the Texas Revised Civil Statutes Development Corporation Act of 1979. The Corporation has no members and is a non-stock corporation.

In accordance with GASB Statement No. 14, the Financial Reporting Entity, as amended by GASB Statement No. 39, the LEDC is a discretely presented component unit on the combined financial statements. The funding for LEDC occurs by the City transferring 1/3 sales tax revenues collected by the City.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Unrestricted Cash and Cash Equivalents	\$ 211,528
Total	<u>\$ 211,528</u>

Credit Risk

State law restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further required full insurance of collateralization from these depositories (banks only).

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial instruction secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

2. Receivables

Receivables at the year end for the LEDC were \$8,740. This is sales tax receivable due from the City. There is no allowance for uncollectible accounts.

3. Operating Leases

The LEDC has an operating lease with the City of Lavon to rent office space for \$5,000 annually beginning March 1, 2012 and ending in seven years.

4. Subsequent Events

The LECC has evaluated all events or transactions that occurred after September 30, 2012 up through October 11, 2013, the date the financial statements were available to be issued. During this period management noted their were no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 781,039	\$ 781,039	\$ 790,974	\$ 9,935
Sales	86,500	86,500	103,885	17,385
Franchise	92,000	92,000	88,270	(3,730)
Intergovernmental revenue	86,235	86,235	27,975	(58,260)
Licenses and permits	170,200	170,200	171,811	1,611
Fines and forfeitures	76,127	76,127	126,703	50,576
Donations	2,436	2,436	14,840	12,404
Investment income	600	600	2,556	1,956
Miscellaneous	51,200	51,200	-	(51,200)
Total revenues	1,346,337	1,346,337	1,327,014	(19,323)
EXPENDITURES				
Current operating:				
Legislative	256,925	256,925	221,121	35,804
Administration	228,956	228,956	246,934	(17,978)
Public works	179,448	179,448	166,143	13,305
Code enforcement	6,250	6,250	5,000	1,250
Municipal court	49,445	49,445	42,268	7,177
Fire department	47,400	47,400	45,930	1,470
Police	449,009	449,009	427,071	21,938
Miscellaneous	499	499	663	(164)
Debt service:				
Principal retirement	480,049	480,049	368,008	112,041
Interest	-	-	16,234	(16,234)
Debt Issuance Costs	-	-	7,500	(7,500)
Capital outlay	58,350	58,350	100,786	(42,436)
Total expenditures	1,756,331	1,756,331	1,647,658	108,673
Excess of revenues over expenditures	(409,994)	(409,994)	(320,644)	89,350
Other financing sources (uses)				
Transfers	278,882	281,915	(132,155)	(414,070)
Sale of assets	-	-	11,226	11,226
Insurance reimbursement	13,014	13,014	13,014	-
Note proceeds	180,500	180,500	218,010	37,510
Total other financing sources (uses)	472,396	475,429	110,095	(365,334)
Net change in fund balances	62,402	65,435	(210,549)	(275,984)
Fund balances/equity, October 1	(33,997)	(33,997)	(33,997)	
Prior period adjustments	-	-	8,640	
Fund balances/equity, September 30	\$ 28,405	\$ 31,438	\$ (235,906)	

CITY OF LAVON, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

TMRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST SIX FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) -Unit Credit	(3) Unfunded Actuarial Liability UAAL (2)-(1)	(4) Funded Percent (1)/(2)	(5) Covered Payroll	(6) UAAL as Percent of Covered Payroll (3)/(5)	(7) Annual Required Contributions	(8) Actual Contributions	Percent Contributed (8)/(7)
2007	12/31/2006	\$ 128,963	\$ 137,504	\$ 8,541	93.8%	\$ 505,769	1.7%	\$ 13,325	\$ 13,325	100%
2008	12/31/2007	172,399	188,658	16,259	91.4%	711,948	2.3%	17,288	17,288	100%
2009	12/31/2008	228,418	240,607	12,189	94.9%	753,591	1.6%	18,435	18,435	100%
2010	12/31/2009	276,767	355,220	78,453	77.9%	724,604	10.8%	16,458	16,458	100%
2011	12/31/2010	359,159	412,813	53,654	87.0%	745,485	7.2%	16,458	16,458	100%
2012	12/31/2011	452,161	467,925	15,764	96.6%	710,880	2.2%	32,204	32,204	100%

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SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012**

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Escrow Fund	Street Sales Tax Fund	Total Other Governmental Funds
ASSETS AND OTHER DEBITS							
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and cash equivalents - restricted	15,459	1,913	2,728	1,824	20,034	-	41,958
Total assets	<u>15,459</u>	<u>1,913</u>	<u>2,728</u>	<u>1,824</u>	<u>20,034</u>	<u>-</u>	<u>41,958</u>
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	-	-	-	-	9,229	-	9,229
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,229</u>	<u>-</u>	<u>9,229</u>
Fund Balances:							
Restricted for:							
Court	15,459	-	-	1,824	10,805	-	28,088
Police	-	1,913	2,728	-	-	-	4,641
Unassigned	-	-	-	-	-	-	-
Total fund balance	<u>15,459</u>	<u>1,913</u>	<u>2,728</u>	<u>1,824</u>	<u>10,805</u>	<u>-</u>	<u>32,729</u>
Total liabilities and fund balances	<u>\$ 15,459</u>	<u>\$ 1,913</u>	<u>\$ 2,728</u>	<u>\$ 1,824</u>	<u>\$ 20,034</u>	<u>\$ -</u>	<u>\$ 41,958</u>

**CITY OF LAVON, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Escrow Fund	Street Sales Tax Fund	Total Other Governmental Funds
REVENUES							
Fines and forfeitures	\$ 2,384	\$ -	\$ -	\$ 1,615	\$ 297	\$ -	\$ 4,296
Investment income	-	-	-	-	-	-	-
Total Revenues	<u>2,384</u>	<u>-</u>	<u>-</u>	<u>1,615</u>	<u>297</u>	<u>-</u>	<u>4,296</u>
EXPENDITURES							
Current:							
Court	1,153	-	-	10,440	39,212	-	50,805
Police	-	222	-	-	-	-	222
Total Expenditures	<u>1,153</u>	<u>222</u>	<u>-</u>	<u>10,440</u>	<u>39,212</u>	<u>-</u>	<u>51,027</u>
Excess of revenues over expenditures	1,231	(222)	-	(8,825)	(38,915)	-	(46,731)
Other Financing Sources (uses)							
Transfers	118	-	-	(31)	43,954	-	44,041
Total Other Financing Sources (uses)	<u>118</u>	<u>-</u>	<u>-</u>	<u>(31)</u>	<u>43,954</u>	<u>-</u>	<u>44,041</u>
Net Change in Fund Balances	1,349	(222)	-	(8,856)	5,039	-	(2,690)
Fund Balances, October 1	14,110	2,135	2,728	10,680	5,766	-	35,419
Fund Balances, September 30	<u>\$ 15,459</u>	<u>\$ 1,913</u>	<u>\$ 2,728</u>	<u>\$ 1,824</u>	<u>\$ 10,805</u>	<u>\$ -</u>	<u>\$ 32,729</u>

**CITY OF LAVON, TEXAS
BALANCE SHEET - COMPONENT UNIT
SEPTEMBER 30, 2012**

**Economic
Development**

ASSETS

Cash and cash equivalents	\$ 211,528
Due from City	8,740
Prepaid Expenses	<u>30,000</u>
Total assets	<u><u>250,268</u></u>

FUND BALANCE

Fund Balance:	
Unassigned	<u>250,268</u>
Total fund balance	<u><u>\$ 250,268</u></u>

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COMPONENT UNIT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

REVENUES	
Sales tax	\$ 47,358
Miscellaneous	158
Total revenues	<u>47,516</u>
EXPENDITURES	
Current:	
Supplies and Materials	<u>25,481</u>
Total expenditures	<u>25,481</u>
Excess (deficiency) of revenues over (under) expenditures	22,035
Other revenues and financing sources (uses)	
Interest income	<u>248</u>
Total other financing sources (uses)	<u>248</u>
Net change in fund balance	22,283
Fund balances, October 1	<u>227,985</u>
Fund balances, September 30	<u><u>\$ 250,268</u></u>