

City of Willow Park, Texas

Financial Statements

September 30, 2012

HMSW CPA, P.L.L.C.
Professional Limited Liability Corporation
1010 N. Center Street
Arlington, TX 76011
817-704-6400

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Willow Park, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Willow Park, Texas (the "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's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

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

Management has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

HMSW

HMSW CPA, P.L.L.C.
Arlington, Texas
December 17, 2012, except for
Note 9, as to which the date is
March 1, 2013

City of Willow Park, Texas
Government-Wide Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 438,048	\$ 2,364,473	\$ 2,802,521
Certificates of deposits	526,259	349,016	875,275
Property taxes receivable, net of allowance for uncollectibles	-	-	-
Accounts receivable, net	40,986	247,705	288,691
Internal balances	124,858	(124,858)	-
Due from other governments	49,279	-	49,279
Deferred charge-issuance costs	110,676	24,382	135,058
Restricted assets:			
Capital improvement	10,171	-	10,171
2008 series bond fund	25,294	-	25,294
Customer deposits	-	113,178	113,178
Escrow	-	24,067	24,067
2003 series bond fund	-	1,060,216	1,060,216
2003 tax and revenue certificate	-	833	833
Water improvements	-	494,090	494,090
Wastewater improvements	-	1,614	1,614
Capital assets:			
Land	509,921	-	509,921
Building and improvements	413,903	79,050	492,953
Machinery and equipment	128,549	-	128,549
Office furniture and equipment	110,420	37,770	148,190
Road improvements	5,357,543	-	5,357,543
System improvements	-	3,887,449	3,887,449
Waterworks system	-	3,592,320	3,592,320
Wastewater system	-	1,494,371	1,494,371
Vehicles	560,190	355,199	915,389
Less: accumulated depreciation	(1,585,294)	(3,644,581)	(5,229,875)
TOTAL ASSETS	\$ 6,820,803	\$ 10,356,294	\$ 17,177,097

The accompanying notes are an integral part of these financial statements.

<u>Component Unit</u>	<u>Total Reporting Entity</u>
Willow Park Fire and Rescue	
\$ 165,559	\$ 2,968,080
-	875,275
-	-
-	288,691
-	-
-	49,279
-	135,058
-	10,171
-	25,294
-	113,178
-	24,067
-	1,060,216
-	833
-	494,090
-	1,614
-	509,921
128,069	621,022
1,016,255	1,144,804
-	148,190
-	5,357,543
-	3,887,449
-	3,592,320
-	1,494,371
-	915,389
<u>(496,224)</u>	<u>(5,726,099)</u>
<u>\$ 813,659</u>	<u>\$ 17,990,756</u>

City of Willow Park, Texas
Government-Wide Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	\$ 20,461	\$ 24,686	\$ 45,147
Accrued expenses	6,727	18,485	25,212
Deferred revenue	-	250,000	250,000
Payable from restricted assets:			
Accrued interest	14,422	9,805	24,227
Customer deposits	-	113,178	113,178
Noncurrent liabilities:			
Due within one year:			
Long-term debt	320,000	305,000	625,000
Due in more than one year:			
Long-term debt	4,639,058	2,384,524	7,023,582
Accrued compensated absences	152,262	62,073	214,335
TOTAL LIABILITIES	<u>5,152,930</u>	<u>3,167,751</u>	<u>8,320,681</u>
NET ASSETS			
Invested in capital assets net of related debt	1,305,232	3,112,054	4,417,286
Restricted for:			
Debt service	4,555	-	4,555
Unrestricted	358,086	4,076,489	4,434,575
TOTAL NET ASSETS	<u>\$ 1,667,873</u>	<u>\$ 7,188,543</u>	<u>\$ 8,856,416</u>

The accompanying notes are an integral part of these financial statements.

<u>Component Unit</u>	<u>Total Reporting Entity</u>
Willow Park Fire and Rescue	
\$ 370	\$ 45,517
-	25,212
-	250,000
-	24,227
-	113,178
23,190	648,190
219,613	7,243,195
-	214,335
<u>243,173</u>	<u>8,563,854</u>
405,297	4,822,583
-	4,555
<u>165,189</u>	<u>4,599,764</u>
<u>\$ 570,486</u>	<u>\$ 9,426,902</u>

City of Willow Park, Texas
Government-Wide Statement of Activities
For the Year Ended September 30, 2012

Program Activities	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,003,308	\$ 157,768	\$ 1,547	\$ -
Police department	942,209	145,952	932	-
Municipal court	80,702	-	-	-
City services	538,460	182,121	2,562	-
Interest on long term debt	207,381	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>2,772,060</u>	<u>485,841</u>	<u>5,041</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES				
Water	1,468,456	1,378,519	-	-
Wastewater	401,220	267,854	-	-
Interest on long-term debt	162,141	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>2,031,817</u>	<u>1,646,373</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 4,803,877</u>	<u>\$ 2,132,214</u>	<u>\$ 5,041</u>	<u>\$ -</u>
COMPONENT UNITS				
Willow Park Fire and Rescue	\$ 596,622	\$ 509,937	\$ 29,739	\$ -
Interest on long-term debt	7,661	-	-	-
TOTAL COMPONENT UNITS	<u>\$ 604,283</u>	<u>\$ 509,937</u>	<u>\$ 29,739</u>	<u>\$ -</u>

GENERAL REVENUES

Taxes:

- City sales tax
- Franchise tax
- Mixed beverage tax
- Motel tax
- Property tax

Interest

Other

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS, OCTOBER 1, 2011

NET ASSETS, SEPTEMBER 30, 2012

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets				Total Reporting Entity
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Willow Park Fire and Rescue	
\$ (843,993)	\$ -	\$ (843,993)	\$ -	\$ (843,993)
(795,325)	-	(795,325)	-	(795,325)
(80,702)	-	(80,702)	-	(80,702)
(353,777)	-	(353,777)	-	(353,777)
(207,381)	-	(207,381)	-	(207,381)
<u>(2,281,178)</u>	<u>-</u>	<u>(2,281,178)</u>	<u>-</u>	<u>(2,281,178)</u>
-	(89,937)	(89,937)	-	(89,937)
-	(133,366)	(133,366)	-	(133,366)
-	(162,141)	(162,141)	-	(162,141)
-	(385,444)	(385,444)	-	(385,444)
<u>\$ (2,281,178)</u>	<u>\$ (385,444)</u>	<u>\$ (2,666,622)</u>	<u>\$ -</u>	<u>\$ (2,666,622)</u>
\$ -	\$ -	\$ -	\$ (56,946)	\$ (56,946)
-	-	-	(7,661)	(7,661)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (64,607)</u>	<u>\$ (64,607)</u>
623,038	-	623,038	-	623,038
214,243	-	214,243	-	214,243
12,714	-	12,714	-	12,714
13,137	-	13,137	-	13,137
1,494,899	-	1,494,899	-	1,494,899
1,830	12,049	13,879	116	13,995
54,822	-	54,822	27,642	82,464
<u>2,414,683</u>	<u>12,049</u>	<u>2,426,732</u>	<u>27,758</u>	<u>2,454,490</u>
133,505	(373,395)	(239,890)	(36,849)	(276,739)
1,534,368	7,561,938	9,096,306	607,335	9,703,641
<u>\$ 1,667,873</u>	<u>\$ 7,188,543</u>	<u>\$ 8,856,416</u>	<u>\$ 570,486</u>	<u>\$ 9,426,902</u>

City of Willow Park, Texas
Balance Sheet
Governmental Funds
September 30, 2012

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 419,071	\$ 18,977	\$ 438,048
Certificates of deposit	526,259	-	526,259
Accounts receivable, net	40,986	-	40,986
Due from other funds	124,858	-	124,858
Due from other governments	49,279	-	49,279
Restricted assets:			
Capital improvement	10,171	-	10,171
2008 series bond fund	25,294	-	25,294
TOTAL ASSETS	\$ 1,195,918	\$ 18,977	\$ 1,214,895
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 20,461	\$ -	\$ 20,461
Accrued expenses	6,727	-	6,727
Payable from restricted assets:			
Accrued interest	-	14,422	14,422
TOTAL LIABILITIES	27,188	14,422	41,610
FUND BALANCES			
Restricted for:			
Debt service	-	4,555	4,555
Unassigned	1,168,730	-	1,168,730
TOTAL FUND BALANCES	1,168,730	4,555	1,173,285
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,195,918	\$ 18,977	\$ 1,214,895

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
 Reconciliation of the Governmental Funds Balance Sheet to
 Government-Wide Statement of Net Assets
 September 30, 2012

Total fund balance-total governmental funds		\$ 1,173,285
Capital assets used in governmental activities are not current financial resources and therefore are not reported in governmental funds balance sheet.		5,495,232
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		
Long-term compensated absences	\$ (152,262)	
Long-term debt, due within one year	(320,000)	
Long-term debt, due in more than one year	(4,639,058)	
Deferred charge-issuance costs	<u>110,676</u>	
		<u>(5,000,644)</u>
Total net assets of governmental activities		<u>\$ 1,667,873</u>

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

	General Fund	Debt Service	Total Governmental Funds
REVENUES			
City sales tax	\$ 623,038	\$ -	\$ 623,038
Franchise tax	214,243	-	214,243
Mixed beverage tax	12,714	-	12,714
Motel tax	13,137	-	13,137
Property tax	1,494,899	-	1,494,899
Licenses and permits	114,544	-	114,544
Reviews and inspections	43,224	-	43,224
Fines and forfeits	145,952	-	145,952
Waste management fees	182,121	-	182,121
Interest	1,830	-	1,830
Contributions	5,041	-	5,041
Other	54,822	-	54,822
TOTAL REVENUES	2,905,565	-	2,905,565
EXPENDITURES			
Administration	978,552	-	978,552
Police	908,271	-	908,271
Municipal court	80,316	-	80,316
City services	490,812	-	490,812
Debt service:			
Principal retirement	-	4,610,000	4,610,000
Interest and fiscal charges	-	207,381	207,381
TOTAL EXPENDITURES	2,457,951	4,817,381	7,275,332
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	447,614	(4,817,381)	(4,369,767)
OTHER FINANCING SOURCES (USES)			
Proceeds from bond sale	-	4,079,324	4,079,324
Bond premium	-	264,058	264,058
Transfers in	-	488,231	488,231
Transfers out	(488,231)	-	(488,231)
TOTAL OTHER FINANCING SOURCES (USES)	(488,231)	4,831,613	4,343,382
NET CHANGE IN FUND BALANCES	(40,617)	14,232	(26,385)
FUND BALANCE, OCTOBER 1, 2011	1,209,347	(9,677)	1,199,670
FUND BALANCE, SEPTEMBER 30, 2012	\$ 1,168,730	\$ 4,555	\$ 1,173,285

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2012

Net change in fund balances-total governmental funds \$ (26,385)

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 242,202

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (342,205)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from issuance of bonds	(4,343,382)	
Bond principal retirement	4,610,000	266,618

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Increase in compensated absences liability	(6,725)
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Change in net assets of governmental activities	\$ 133,505
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The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		favorable (unfavorable)
REVENUES				
City sales tax	\$ 540,000	\$ 540,000	\$ 623,038	\$ 83,038
Franchise tax	202,126	202,126	214,243	12,117
Mixed beverage tax	17,377	17,377	12,714	(4,663)
Motel tax	9,272	9,272	13,137	3,865
Property tax	1,527,340	1,527,340	1,494,899	(32,441)
Licenses and permits	168,180	168,180	114,544	(53,636)
Reviews and inspections	12,816	12,816	43,224	30,408
Fines and forfeits	146,370	146,370	145,952	(418)
Waste management fees	191,366	191,366	182,121	(9,245)
Interest	2,436	2,436	1,830	(606)
Contributions	4,802	4,802	5,041	239
Other	56,094	56,094	54,822	(1,272)
TOTAL REVENUES	<u>2,878,179</u>	<u>2,878,179</u>	<u>2,905,565</u>	<u>27,386</u>
EXPENDITURES				
Administration	1,461,558	1,461,558	978,552	483,006
Police	932,206	932,206	908,271	23,935
Municipal court	105,506	105,506	80,316	25,190
City services	428,040	428,040	490,812	(62,772)
TOTAL EXPENDITURES	<u>2,927,310</u>	<u>2,927,310</u>	<u>2,457,951</u>	<u>469,359</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (49,131)</u>	<u>\$ (49,131)</u>	447,614	<u>\$ 496,745</u>
Transfers out			(488,231)	
FUND BALANCE, OCTOBER 1, 2011			<u>1,209,347</u>	
FUND BALANCE, SEPTEMBER 30, 2012			<u>\$ 1,168,730</u>	

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business Type Activities-Enterprise Funds		
	Water	Wastewater	Total
ASSETS			
Current Assets:			
Cash	\$ 2,364,473	\$ -	\$ 2,364,473
Certificates of deposits	321,922	27,094	349,016
Accounts receivable, net	187,271	60,434	247,705
Total Current Assets	<u>2,873,666</u>	<u>87,528</u>	<u>2,961,194</u>
Non-Current Assets:			
Restricted Assets			
Customer deposits	113,178	-	113,178
Escrow	24,067	-	24,067
2003 Series bond fund	1,060,216	-	1,060,216
2003 Tax and revenue and certificate	833	-	833
Water improvement account	494,090	-	494,090
Wastewater improvements	-	1,614	1,614
Deferred charge-issuance costs	24,382	-	24,382
Capital Assets:			
Building and improvements	79,050	-	79,050
Office furniture and equipment	36,277	1,493	37,770
System improvements	3,887,449	-	3,887,449
Waterworks system	3,592,320	-	3,592,320
Wastewater system	-	1,494,371	1,494,371
Vehicles	332,756	22,443	355,199
	<u>7,927,852</u>	<u>1,518,307</u>	<u>9,446,159</u>
Less: Accumulated depreciation	<u>(3,040,875)</u>	<u>(603,706)</u>	<u>(3,644,581)</u>
Total Capital Assets Net of Accumulated Depreciation	<u>4,886,977</u>	<u>914,601</u>	<u>5,801,578</u>
Total Non-Current Assets	<u>6,603,743</u>	<u>916,215</u>	<u>7,519,958</u>
TOTAL ASSETS	<u>\$ 9,477,409</u>	<u>\$ 1,003,743</u>	<u>\$ 10,481,152</u>

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business Type Activities-Enterprise Funds		
	Water	Wastewater	Total
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 21,405	\$ 3,281	\$ 24,686
Accrued expenses	18,485	-	18,485
Due to other funds	110,005	14,853	124,858
Deferred revenue	250,000	-	250,000
Notes and bonds payable-current portion	305,000	-	305,000
Current Liabilities Payable From			
Restricted Assets:			
Customer deposits	113,178	-	113,178
Accrued interest	9,805	-	9,805
Total Current Liabilities	<u>827,878</u>	<u>18,134</u>	<u>846,012</u>
Non-Current Liabilities:			
Revenue bonds payable, net	2,384,524	-	2,384,524
Accrued compensated absences	58,367	3,706	62,073
Total Non-Current Liabilities	<u>2,442,891</u>	<u>3,706</u>	<u>2,446,597</u>
TOTAL LIABILITIES	<u>3,270,769</u>	<u>21,840</u>	<u>3,292,609</u>
NET ASSETS			
Invested in capital assets, net of related debt			
	2,197,453	914,601	3,112,054
Unrestricted	<u>4,009,187</u>	<u>67,302</u>	<u>4,076,489</u>
TOTAL NET ASSETS	<u>\$ 6,206,640</u>	<u>\$ 981,903</u>	<u>\$ 7,188,543</u>

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	Business Type Activities-Enterprise Funds		
	Water	Wastewater	Total
OPERATING REVENUES			
Water sales	\$ 1,322,946	\$ -	\$ 1,322,946
Wastewater sales	-	252,440	252,440
New account fees	9,811	-	9,811
Tap fees	7,063	8,414	15,477
Impact fees	5,933	1,400	7,333
Other fees	32,766	5,600	38,366
TOTAL OPERATING REVENUES	1,378,519	267,854	1,646,373
OPERATING EXPENSES			
Personnel	505,430	89,291	594,721
Supplies	203,189	29,417	232,606
Contractual services	272,490	209,056	481,546
Utilities	132,980	33,797	166,777
Bad debts	121,489	-	121,489
Depreciation	232,878	39,659	272,537
TOTAL OPERATING EXPENSES	1,468,456	401,220	1,869,676
LOSS FROM OPERATIONS	(89,937)	(133,366)	(223,303)
NON-OPERATING REVENUES (EXPENSES)			
Interest revenues	11,984	65	12,049
Interest and fiscal charges	(120,711)	-	(120,711)
Revenue bond discount amortization	(41,430)	-	(41,430)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(150,157)	65	(150,092)
LOSS BEFORE TRANSFERS	(240,094)	(133,301)	(373,395)
Transfers in (out)	(94,493)	94,493	-
CHANGE IN NET ASSETS	(334,587)	(38,808)	(373,395)
NET ASSETS, OCTOBER 1, 2011	6,541,227	1,020,711	7,561,938
NET ASSETS, SEPTEMBER 30, 2012	\$ 6,206,640	\$ 981,903	\$ 7,188,543

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business Type Activities-Enterprise Funds		
	Water	Wastewater	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and other	\$ 1,639,931	\$ 263,487	\$ 1,903,418
Cash paid to suppliers and employees	(1,076,693)	(367,796)	(1,444,489)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>563,238</u>	<u>(104,309)</u>	<u>458,929</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	(94,493)	94,493	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(94,493)</u>	<u>94,493</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments-notes and bonds	(218,428)	-	(218,428)
Interest and fiscal charges	(165,678)	-	(165,678)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(384,106)</u>	<u>-</u>	<u>(384,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	11,984	65	12,049
Purchase of fixed assets	(475,252)	-	(475,252)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(463,268)</u>	<u>65</u>	<u>(463,203)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(378,629)	(9,751)	(388,380)
CASH AND CASH EQUIVALENTS, OCTOBER 1, 2011, (including \$1,422,647 in restricted assets)	<u>4,757,408</u>	<u>38,459</u>	<u>4,795,867</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2012, (including \$1,693,998 in restricted assets)	<u>\$ 4,378,779</u>	<u>\$ 28,708</u>	<u>\$ 4,407,487</u>

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Statement of Cash Flows, continued
Proprietary Funds
For the Year Ended September 30, 2012

	Business Type Activities-Enterprise Funds		
	Water	Wastewater	Total
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES			
LOSS FROM OPERATIONS	\$ (89,937)	\$ (133,366)	\$ (223,303)
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES			
Depreciation	232,878	39,659	272,537
(Increase) decrease in accounts receivable	107,780	(4,367)	103,413
Increase (decrease) in accounts payable	7,864	(5,898)	1,966
Increase in accrued expenses	2,328	-	2,328
Increase (decrease) in accrued compensated absences	27,204	(337)	26,867
Increase in deferred revenue	250,000	-	250,000
Increase in customer deposits	25,121	-	25,121
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 563,238	\$ (104,309)	\$ 458,929

The accompanying notes are an integral part of these financial statements.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Willow Park, Texas (the "City") was formed as an incorporated City in 1963. The City is governed by an elected mayor and five-member council and provides the following services to the citizens of the City: general administration, police department, water and wastewater, municipal court, and city services.

The financial statements of the City have been prepared to conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As allowed in Section P80 of GASB's "*Codification of Governmental Accounting and Financial Reporting Standards*", the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting and reporting policies and practices used by the City are described below.

A. 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. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's governmental funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by GASB Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*" The accrual basis of accounting and the economic resources measurement focus is utilized by the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management's Discussion and Analysis. Management has elected to exclude this information. In addition, a budgetary comparison statement is presented that compares the general fund budget with actual results.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting, as set forth in Section 2100 of GASB's "Codification of Governmental Accounting and Financial Reporting Standards," include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on these criteria, the Willow Park Fire and Rescue Department is a component unit.

C. Government-wide and Fund Financial Statements

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

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (general and administrative, police, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include; 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All franchise fees are based on gross receipts and are included in general revenues. The net cost is normally covered by general revenue (property and sales taxes, franchise fees, interest income, etc.).

The City segregates transactions related to certain functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The governmental funds of the City are the General Fund and Debt Service Fund.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included in the Statement of Net Assets. The only proprietary fund of the City is the Water and Wastewater Fund. It is used to account for the provision of water and wastewater services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and wastewater system and billing and collection activities. The fund distinguishes 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 ongoing operations. Operating expenses include the cost of personal and contractual services, supplies and depreciation on capital assets. All other revenues and expenses are reported as non-operating revenues and expenses.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

D. Measurement Focus and Basis of Accounting

The government-wide statements and financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. However, the City has established an allowance for delinquent taxes equivalent to 100% of uncollected property taxes. As of September 30, 2012 there was \$56,666 in levied delinquent property taxes that were fully reserved. Gross receipts of taxes, licenses, and charges for services, fines and other revenues are recorded as revenue when received as they are generally not measurable until received.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted for the general fund. All annual unencumbered appropriations lapse at fiscal year end.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

F. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets and are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. There is no capitalized interest included as part of this capitalized value.

The City has elected to account for infrastructure assets on a prospective basis beginning October 1, 2003. Depreciation has been calculated on each class of depreciable property using the straight-line method. Property, plant and equipment of the primary government, as well as the component unit, are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classification</u>	<u>Useful Life in Years</u>
Buildings/improvements	20 to 40
Machinery/equipment including water and wastewater	5 to 10
Furniture/equipment	5 to 10
Road improvements	20
Vehicles	5

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental Activities:

	<u>Balance 10/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2012</u>
Capital Assets:				
Land	\$ 449,897	\$ 60,024	\$ -	\$ 509,921
Buildings/improvements	413,903	-	-	413,903
Machinery/equipment	128,549	-	-	128,549
Furniture/equipment	110,420	-	-	110,420
Road improvements	5,217,423	140,120	-	5,357,543
Vehicles	518,132	42,058	-	560,190
	<u>\$ 6,838,324</u>	<u>\$ 242,202</u>	<u>\$ -</u>	<u>\$ 7,080,526</u>
	<u>Balance 10/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2012</u>
Accumulated Depreciation:				
Buildings/improvements	\$ 98,613	\$ 11,270	\$ -	\$ 109,883
Machinery/equipment	91,453	11,452	-	102,905
Furniture/equipment	98,013	5,316	-	103,329
Road improvements	435,066	262,622	-	697,688
Vehicles	519,944	51,545	-	571,489
	<u>\$ 1,243,089</u>	<u>\$ 342,205</u>	<u>\$ -</u>	<u>\$ 1,585,294</u>
Governmental Activities				
Net Capital Assets	<u>\$ 5,595,235</u>	<u>\$ (100,003)</u>	<u>\$ -</u>	<u>\$ 5,495,232</u>

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business-Type Activities (Water and Wastewater Fund):

	<u>Balance</u> <u>10/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2012</u>
Capital Assets:				
Buildings/improvements	\$ 79,050	\$ -	\$ -	\$ 79,050
Furniture/equipment	37,770	-	-	37,770
System improvements	3,459,823	427,626	-	3,887,449
Waterworks system	3,592,320	-	-	3,592,320
Wastewater system	1,494,371	-	-	1,494,371
Vehicles	307,573	47,626	-	355,199
	<u>\$ 8,970,907</u>	<u>\$ 475,252</u>	<u>\$ -</u>	<u>\$ 9,446,159</u>
Accumulated Depreciation:				
Buildings/improvements	\$ 13,694	\$ 1,976	\$ -	\$ 15,670
Furniture/equipment	26,080	5,419	-	31,499
System improvements	572,924	87,387	-	660,311
Waterworks system	1,975,842	95,354	-	2,071,196
Wastewater system	544,707	37,360	-	582,067
Vehicles	238,797	45,041	-	283,838
	<u>\$ 3,372,044</u>	<u>\$ 272,537</u>	<u>\$ -</u>	<u>\$ 3,644,581</u>
	<u>Balance</u> <u>10/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2012</u>
Business-Type Activities				
Net Capital Assets	<u>\$ 5,598,863</u>	<u>\$ 202,715</u>	<u>\$ -</u>	<u>\$ 5,801,578</u>

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Unit (Willow Park Fire and Rescue):

	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
Capital Assets:				
Buildings/improvements	\$ 128,069	\$ -	\$ -	\$ 128,069
Machinery/equipment	739,672	276,583	-	1,016,255
	<u>\$ 867,741</u>	<u>\$ 276,583</u>	<u>\$ -</u>	<u>\$ 1,144,324</u>
Accumulated Depreciation:				
Buildings/improvements	\$ 8,072	\$ 3,202	\$ -	\$ 11,274
Machinery/equipment	398,709	86,241	-	484,950
	<u>\$ 406,781</u>	<u>\$ 89,443</u>	<u>\$ -</u>	<u>\$ 496,224</u>
Component Unit				
Net Capital Assets	<u>\$ 460,960</u>	<u>\$ 187,140</u>	<u>\$ -</u>	<u>\$ 648,100</u>

Depreciation expense was charged as direct expense to programs as follows:

Governmental Activities:	
Administration	\$ 26,626
Police department	52,957
City services	262,622
	<u>\$ 342,205</u>
Business-Type Activities	
Water	\$ 232,878
Wastewater	39,659
Total	<u>\$ 272,537</u>
Component Unit	
Willow Park fire and rescue	<u>\$ 89,443</u>
	<u>\$ 89,443</u>

G. Fund Balance

Governmental Funds fund balances classified as nonspendable are amounts that are not in spendable form or are required to be maintained intact. Fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by the intent to be used for specific purposes, neither restricted nor committed. Assignments are made by City management based on Council direction. Unassigned fund balances are amounts that are available for any purpose.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Net Assets

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

I. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Water and Wastewater Fund considers all short-term investments (including restricted assets) with a maturity of three months or less at the date of acquisition to be cash equivalents.

J. Restricted Assets

Restricted assets in the Water and Wastewater Fund include customer security deposits and funds designated for improvements to the water and wastewater system. Restricted assets in the General Fund include amounts received to be used for capital improvements.

K. Compensated Absences

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 15 days per year for 4 years of service and over. Hourly employees earn comp time to the extent they work overtime. This can be carried over up to 120 hours.

Accrued vacation leave and comp time is accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund is typically used to liquidate the liability for governmental activities' compensated absences.

City of Willow Park, Texas
Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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/discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method and straight line method, respectively. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, as other financing sources or uses or expenditures at the time of the debt issuance. 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.

2. CASH AND CASH EQUIVALENTS

At September 30, 2012 the carrying amount of the City's cash deposits was \$5,572,818. \$500,000 of this amount was covered by federal depository insurance and the remaining \$5,072,818 was covered by collateral held in the pledging financial institution's trust department in the government's name.

3. PROPERTY TAXES

Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalty and interest is charged at 7 percent on delinquent taxes beginning February 1 and increases each month to 18 percent on July 1.

Appraised values are established by the Parker County Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2011, upon which the original 2012 fiscal year levy was based, was \$338,072,200.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

City of Willow Park, Texas
Notes to Basic Financial Statements

3. PROPERTY TAXES (CONTINUED)

Property tax revenues are recognized when levied to the extent that they result in current receivable available for financing current operations. The City has established an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. Current tax collections for the year ended September 30, 2012 were 98.74% of tax levy.

4. LONG-TERM DEBT

The following is a summary of long-term debt of the City's primary government for the year ended September 30, 2012:

	Balance 10/1/2011	Additions/ Amortization	Reductions	Balance 9/30/2012
Governmental Activities:				
Cert of Obligation	\$ 4,560,000	\$ -	\$ (4,560,000)	\$ -
Refunding Bonds 2010	555,000	-	(50,000)	505,000
Refunding Bonds 2012	-	4,190,000	-	4,190,000
Bond Premium	-	264,058	-	264,058
	<u>\$ 5,115,000</u>	<u>\$ 4,454,058</u>	<u>\$ (4,610,000)</u>	<u>\$ 4,959,058</u>
Business-Type Activities:				
Cert of Obligation	\$ 1,105,000	\$ -	\$ (1,030,000)	\$ 75,000
Refunding Bonds 2010	1,820,000	-	(210,000)	1,610,000
Refunding Bonds 2012	-	945,000	-	945,000
Bond Premium	-	59,524	-	59,524
Bond Discount	(41,430)	41,430	-	-
	<u>\$ 2,883,570</u>	<u>\$ 1,045,954</u>	<u>\$ (1,240,000)</u>	<u>\$ 2,689,524</u>

The above premium/discount is amortized over the term of the bonds using the bonds outstanding method.

City of Willow Park, Texas
Notes to Basic Financial Statements

4. LONG-TERM DEBT (CONTINUED)

Long-term debt at September 30, 2012 is comprised of the following:

	<u>Governmental</u>	<u>Business-Type</u>
\$2,665,000 2010 Refunding Bond due in annual installments of \$145,000 to \$290,000 through September 2021; interest at 2.00% to 4.00%	\$ 505,000	\$ 1,610,000
\$1,600,000 Certificate of Obligation due in one final installment of \$75,000 through February 15, 2013; interest at 4.70%	-	75,000
\$5,135,000 2008 Refunding Bond due in annual installments of \$285,000 to \$625,000 through February 15, 2023; interest at 2.00% to 3.00%	4,190,000	945,000
	\$ 4,695,000	\$ 2,630,000

The annual aggregate maturities for the years subsequent to September 30, 2012 are as follows:

Year Ending 9/30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 320,000	\$ 116,613	\$ 305,000	\$ 75,446	\$ 817,059
2014	335,000	114,250	300,000	68,375	817,625
2015	360,000	106,800	310,000	60,075	836,875
2016	385,000	98,825	325,000	51,425	860,250
2017	405,000	90,100	335,000	41,200	871,300
Thereafter	2,890,000	272,350	1,055,000	80,250	4,297,600
	\$ 4,695,000	\$ 798,938	\$ 2,630,000	\$ 376,771	\$ 8,500,709

There are a number of limitations and restrictions contained in the bond indentures. The City is in compliance with all significant limitations and restrictions. The major provisions of the revenue bond ordinances are as follows:

City of Willow Park, Texas
Notes to Basic Financial Statements

4. LONG-TERM DEBT (CONTINUED)

A. Rates

The City will charge and collect rates sufficient to pay all operation, maintenance, depreciation and betterment charges and expenses of the system and to establish and fully maintain the Debt Service Fund. No free service shall be allowed.

B. Revenue Account – Water & Wastewater Operating Account

All revenues and income of every nature derived from the operation of the system shall be deposited in this account. All necessary and reasonable expenses of operating and maintaining the system shall be paid from this account.

The following is a summary of long-term debt of the City's component unit for the year ended September 30, 2012:

	<u>Balance</u> <u>10/1/2011</u>	<u>Additions/</u> <u>Amortization</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2012</u>
Willow Park Fire and Rescue:				
Note American Bank	\$ -	\$ 267,438	\$ 24,635	\$ 242,803
	<u>\$ -</u>	<u>\$ 267,438</u>	<u>\$ 24,635</u>	<u>\$ 242,803</u>

Notes payable at September 30, 2012 are comprised of the following individual issues:

\$267,438 Note Payable due to American Bank due in annual installments of \$32,296 including interest at 3.75% through October 15, 2020

\$	<u>242,803</u>
\$	<u>242,803</u>

The annual aggregate maturities for the years subsequent to September 30, 2012 are as follows:

<u>Year Ending 9/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,190	\$ 9,106	\$ 32,296
2014	24,060	8,236	32,296
2015	24,962	7,334	32,296
2016	25,898	6,398	32,296
2017	26,870	5,426	32,296
Thereafter	117,823	11,243	129,066
	<u>\$ 242,803</u>	<u>\$ 47,743</u>	<u>\$ 290,546</u>

City of Willow Park, Texas
Notes to Basic Financial Statements

5. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables if any are classified as "Internal Balances" on the appropriate balance sheet.

Interfund balances at September 30, 2012 consisted of the following individual fund receivables and payables:

	Receivable	Payable
General:		
Water	\$ 110,005	\$ -
Wastewater	14,853	-
Water:		
General	-	110,005
Wastewater:		
General		14,853
	\$ 124,858	\$ 124,858

6. DISCRETELY PRESENTED COMPONENT UNITS

The financial data of the City's component unit that meets the criteria of GASB Statement No. 39 for inclusion in the government-wide financial statements is reported in a separate column to emphasize that it is legally separate from the City.

The Willow Park Fire and Rescue Department is a non-profit organization responsible for providing fire and rescue services in the City. The Department functions independently of the City, but is financially dependent on the City to provide revenue. The City provides payroll and bookkeeping services for the Department.

The City paid the Willow Park Fire and Rescue Department \$470,000 during the year ended September 30, 2012. This amount is included in revenue on the Willow Park Fire and Rescue Department statement of activities and as an expense on the City's statement of activities.

The Willow Park Fire and Rescue Department does not issue separate financial statements.

7. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN

A. Pension Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan (the "Plan") in the state-wide Texas Municipal Retirement System ("TMRS"), one of 847 administered by 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 for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained from the TMRS website at www.TMRS.com.

Benefits depend upon the sum of the employee's contributions to the Plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 100 percent of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 5%, and the City matching ratio is currently 1 to 1, both as adopted by the governing body of the City.

City of Willow Park, Texas
Notes to Basic Financial Statements

7. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

B. Pension Funding Policy

Under the state law governing TMRS, the actuary annually determines the City's contribution rate on a calendar-year basis. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 3.3% of covered payroll for the months in calendar year 2011, and 1.5% for the months in calendar year 2012. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation for the City to each employee at the time his or her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. the January 1, 2012 contribution rate is based on the December 31, 2010 valuation results). If a change in plan provisions is elected by the City, this rate can change.

C. Pension Plan Provisions

	Valuation Date		
	2011	2010	2009
1. Total number of participating entities	847	842	837
City specific data:			
2. Employee deposit rate	5.0%	5.0%	5.0%
3. Matching ratio (City to employee)	1 to 1	1 to 1	1 to 1
4. Years required for vesting	5	5	5
5. Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
6. Updated service credit	0%	0%	0%
7. Annuity increase to retirees	0%	0%	0%
8. Supplemental death benefit:			
For active employees	Y	Y	Y
For retirees	Y	Y	Y

City of Willow Park, Texas
Notes to Basic Financial Statements

7. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

D. Pension Actuarial Information

	Valuation Date		
	2011	2010	2009
1. Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
2. Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
3. Remaining amortization period	22 years; closed period	22 years; closed period	23 years; closed period
4. Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
5. Assumptions:			
Investment return	7.0%	7.0%	7.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

E. Pension Funding Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)
2011	\$ 409,822	\$ 621,023	\$ 211,201	66.0%	\$ 1,300,300
2010	298,044	535,390	237,346	55.7%	1,519,673
2009	169,526	366,505	196,979	46.3%	1,640,753

Actuarial Valuation Date	UAAL as a % of Covered Payroll (b-a)/(c)	Net Pension Obligation ("NPO") at the beginning of the period	Annual Required Contribution	Contribution Made	NPO at the end of the period
2011	16.2%	\$ -	\$ 25,620	\$ 25,620	\$ -
2010	13.6%	-	42,209	42,209	-
2009	11.5%	-	58,083	58,083	-

City of Willow Park, Texas
Notes to Basic Financial Statements

7. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for the liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit ("PUC") funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a City requests that the period remain at 25 years. For cities with repeating features, these changes would likely result in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

F. Supplemental Death Benefits Fund

The City as an employer 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 to provide group-term life insurance coverage to both current and retired employees. 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). The death benefit for retirees is considered a postemployment benefit other than pension benefit ("OPEB" or other post-employment benefit) and is a fixed amount of \$7,500.

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 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 employee's entire careers. As an employer, the City contribution to the SDBF for the years ended September 30, 2012, 2011 and 2010 was \$1,392, \$1,971 and \$3,094, respectively, which equaled 100% of the required contribution for the year.

G. Supplemental Death Benefits Plan Provisions

	2011	2010	2009
1. Total number of participating entities	725	722	720
City specific data:			
2. Supplemental death benefit			
For active employees	Y	Y	Y
For retirees	Y	Y	Y

City of Willow Park, Texas
Notes to Basic Financial Statements

7. EMPLOYEE RETIREMENT PLAN AND SUPPLEMENTAL DEATH BENEFITS PLAN (CONTINUED)

H. Supplemental Death Benefits Actuarial Information

	2011	2010	2009
1. Valuation date	12/31/11	12/31/10	12/31/09
2. Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
3. Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
4. Amortization period	25 years – open period	25 years – open period	25 years – open period
5. Asset valuation method	Fund value	Fund value	Fund value
6. Assumptions:			
Investment return	4.25%	4.25%	4.25%
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	None	None	None

8. LEGAL CONTINGENCIES

The City is a defendant in two lawsuits as of September 30, 2012. At this time the City's attorney is not able to form an opinion regarding the likelihood of an unfavorable outcome nor, should the outcome be unfavorable, the range of any possible loss. The City intends to vigorously defend each suit.

9. SUBSEQUENT EVENTS

On December 22, 2012, prior to issuance of the report, the court issued a summary judgment against the City in one of the lawsuits referred to in Note 8; however, on March 1, 2013, another court vacated the judgment.

