

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

**ERNEST R. GARZA
AND COMPANY, P.C.**
Certified Public Accountants



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

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QUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION

Independent Auditors' Report

Honorable City Council
City of Mathis, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Mathis, 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 administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

During the audit, we noted that the financial ledgers were not reconciled on a timely basis along with the various sub-ledgers such as cash, accounts payable, fixed assets and long term liabilities as well as the un-reconciled agency funds. The lack of accurate timely information provided to us causes the City of Mathis to properly plan for its future obligations and results in a qualified/modified opinion.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the budgetary comparison information presented as a 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 inquires 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 opinion on the financial statements that collectively comprise the City of Mathis, Texas, basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernest R. Garza & Company, P.C.
Certified Public Accountants
Corpus Christi, Texas

A handwritten signature in cursive script, appearing to read "Ernest R. Garza & Company, P.C.", written in dark ink.

November 4, 2015

**CITY OF MATHIS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

In this section of the Annual Financial and Compliance Report, we, the managers of City of Mathis, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2012. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 13.

FINANCIAL HIGHLIGHTS

- During the year, the City had expenditures that were \$321,721 more than the \$3,035,790 generated in tax and other revenues for governmental programs (before special items) (Exhibit C-3). This compares to last year (2011) when expenditures (\$3,587,111) were \$188,233 more than revenues (\$3,398,878).
- In the City's business-type activities, operational revenues decreased from \$2,143,019 in 2011 to \$1,582,747 and expenses decreased from \$1,984,175 to \$1,430,172 for a net operating income of \$152,575, after transfer in and out resulted in a net loss \$194,536 from a 2011 net increase of \$74,398. The change in the utility revenue was due to the sanitation department moved to the General Fund.
- The General Fund ended the year with a fund balance of \$(199,445) down from 2011 \$171,121.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 13 and 14-15). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 32) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds. The sections labeled Required Schedules Section contain data used by monitoring or regulatory agencies for assurance that the City is using funds supplied in compliance with the terms of grants.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as fees charged from outside the City and grants provided by the various federal agencies to assist the City with various infrastructure needs. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including the street, infrastructure, police, fire, ambulance and general administration. Property taxes, fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of services it provides in the utility fund for water and sewer charges.
- **Component units**—The City includes two component units – The Mathis Economic Development Corporation and the Pride of Mathis. Although legally separate, these “component units” are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds—not the City as a whole. Laws and contracts require the City to establish some funds, such as grants. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- **Proprietary funds**—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for money raised on behalf of the Mathis Police Reserves. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these resources from the City's other financial statements because the City cannot use these assets to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the City's governmental activities decreased from \$12,013,547 to \$11,699,314. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$233,780 at September 30, 2012. This increase in governmental net assets was the result of primarily a result of current year's operations.

Table I
CITY OF MATHIS, TEXAS
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	1,009,757	1,052,709	354,671	433,164	1,364,428	1,485,873
Restricted Assets	-	227,914	-	47,825	-	275,739
Capital Assets	5,974,156	5,944,196	8,057,362	8,197,922	14,031,518	14,142,118
Total Assets:	6,983,913	7,224,819	8,412,033	8,678,911	15,395,946	15,903,730
Long-Term Liabilities	1,016,648	1,688,823	1,535,175	1,829,139	2,551,823	3,517,962
Restricted Liabilities	-	-	-	87,896	-	87,896
Other Liabilities	691,421	140,455	453,388	143,870	1,144,809	284,325
Total Liabilities	1,708,069	1,829,278	1,988,563	2,060,905	3,696,632	3,890,183
Invested in Capital Assets	4,690,741	4,286,224	6,377,376	6,380,533	11,068,117	10,666,757
Restricted	351,324	367,675	58,264	-	409,588	367,675
Unrestricted	233,779	741,642	(12,170)	237,473	221,609	979,115
Total Net Assets	5,275,844	5,395,541	6,423,470	6,618,006	11,699,314	12,013,547

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The assessed valuation before exemptions at January 1, 2011 totaled \$101.5 million. The current tax rate is \$.900106 per \$100 valuation with a current tax levy of \$825,297. The current tax rate finances debt service and the city's operations.

Through the month of September 2012, the Tax Assessor/Collector's office reports \$812,473 of the levies had been collected. Current tax collections for the operating and interest and sinking fund was \$705,792 or 86.87% of the amount levied, including delinquent collections of \$106,681 or 13.13%. The total overall collection rate was 93.61%. Penalties of \$44,606 were also collected.

The City took actions this year to compensate for some increases in cost and avoid the loss of city revenues.

The City maintained the property tax rate to \$.900106. This was a slight increase due to the increased valuations of the City.

The cost of all governmental activities this year was \$3.54 million compared to \$2.961 million last year, as shown in the Statement of Activities on pages 14 and 15. The business type activity expenses were \$1,430,172, down from the prior year of \$2,060,342. This was due to a move of the sanitation department to the general fund.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16 reported a combined fund balance of \$151,879. (Exhibit C-1, C-3).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had \$10,231,980 invested in a broad range of capital assets, including facilities and infrastructure in the governmental activities. This amount represents a net increase of over \$508,831, or 5.23 percent compared to last year due to adjustments done by the City which reflected a variance due to depreciation taken in the prior years and capital assets not on the ledgers. Proprietary funds had \$11,512,872 invested in fixed assets at year-end as in the prior year.

This year's 2011/2012 continued finishing major additions included:

	-
Fixed asset additions - net	508,831
	-
	-
	<u>508,831</u>

Debt

At year-end, the City had \$5,886,323 in bonds and notes outstanding versus \$6,353,332 last year. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

Pension Plan

The City of Mathis provides pension benefits for all of its employees except for firefighters through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide 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 statutes of TRMS.

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

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

	Plan Year 2010	Plan Year 2011
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	1 to 1	1 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20	60/5,0/20
Updated Service Credit	0%	0%
Annuity Increase (to Retirees)	0% of CPI	0% of CPI

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

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

1. Annual Required Contribution (ARC)	112,910
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	112,910
4. Annual Pension Cost (APC)	112,910
5. Contributions Made	-
6. Increase (Decrease) in net pension obligation	-
7. Net Pension Obligation/(Asset), beginning of year	-
8. Net Pension Obligation/(Asset), end of year	-

The City does not have an unfunded Actuarial Accrued Liability overall. See notes to financial statements for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget, tax rates. One of those factors is the economy.

These indicators were taken into account when adopting the General Fund budget for 2012. Amounts available for appropriation in the General Fund budget are \$3,467,059, an increase of 23.53 percent over the final 2011 budget of \$2,806,531. Property taxes (benefiting from the 2011/2012 rate increases and increases in assessed valuations). Budgeted expenditures are expected to rise nearly 3 percent in 2013. Increased wages and salaries caused some of the increase including higher fuel and fuel related services. The City has upcoming capital projects from grants for a new festival area along with various infrastructure additions for the upcoming budget.

If these estimates are realized, the City's budgetary General Fund balance is expected to increase modestly by the close of 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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CITY OF MATHIS, TEXAS
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government			Component Unit Non-Major
	Governmental	Business Type	Total	Component Unit
	Activities	Activities		
ASSETS:				
Cash and Cash Equivalents	\$ 365,114	122,941	488,055	34,461
Investments - Current	-	-	-	441,440
Receivables (net of allowance)	644,642	139,390	784,033	66,962
Prepaid Items	-	-	-	-
Due From Other Funds	-	34,076	34,076	42,971
Due From Others	-	-	-	-
Inventory	-	-	-	-
Bond Issue Cost (net)	-	-	-	-
Restricted Assets:				
Temporarily Restricted:				
Temporarily Restricted Assets	-	58,264	58,264	-
Capital Assets:				
Land	322,575	12,412	334,987	-
Utility System, net	4,192,137	7,928,024	12,120,161	-
Machinery and Equipment, net	1,459,444	116,926	1,576,370	-
Construction in Progress	-	-	-	-
TOTAL ASSETS:	\$ 6,983,912	8,412,033	15,395,945	585,835
LIABILITIES:				
Accounts Payable & Other Current Liab.	\$ 318,041	17,022	335,063	-
Due to Other Funds	42,971	34,077	77,048	-
Due to Others	-	-	-	-
Accrued Liabilities	63,641	150,413	214,055	-
Current Bonds/Loans/Lease Payable	266,767	144,812	411,579	52,255
Payable from Restricted Assets	-	107,064	107,064	-
Bonds/Loans Payable/Other - Long Term	1,016,648	1,535,175	2,551,822	335,257
TOTAL LIABILITIES	\$ 1,708,068	1,988,562	3,696,631	387,512
NET ASSETS:				
Invested in Capital Assets	\$ 4,690,741	6,377,376	11,068,116	(387,512)
Restricted for Revenue Bond Retirement	-	-	-	-
Commitments	-	-	-	-
Restricted for Capital Project Funds	-	-	-	-
Restricted for Special Revenue Funds	322,337	58,264	380,601	-
Restricted for Debt Service Funds	28,987	-	28,987	-
Unrestricted Net Assets	233,780	(12,169)	221,610	585,835
TOTAL NET ASSETS	\$ 5,275,844	6,423,470	11,699,314	198,323

The notes to the Financial Statements are an integral part of this statement.

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

	Expenses	Program Revenues	
		Charges For Services	Operating Grants and Contributions
<u>Primary Government:</u>			
GOVERNMENTAL ACTIVITIES:			
10 General Government	\$ 505,172	489,249	-
21 Public Safety	2,062,555	-	-
31 Public Works	753,616	402,457	-
50 Culture and Recreation	132,399	-	-
65 Economic Development and Assistance	-	-	-
73 Bond Interest	89,730	-	-
 TOTAL PRIMARY GOVERNMENT	 \$ <u>3,543,471</u>	 <u>891,706</u>	 <u>-</u>
 BUSINESS-TYPE ACTIVITIES:			
701 Utility Fund	\$ 1,430,172	1,582,747	-
Total Business Type Activities:	\$ <u>1,430,172</u>	<u>1,582,747</u>	<u>-</u>

General Revenues:

Taxes:
Prop. Taxes, Levied for M&O, Debt Serv., Pen., Int.
Sales Taxes
Franchise Taxes
Other Taxes
Licenses and Permits
Grants and Contributions not Restricted
Other Revenue
Investment Earnings
Transfers In (Out)
Total General Revenues and Transfers
Change in Net Assets

Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT B-1

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			Component Units Non-major Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (15,923)	-	(15,923)	-
(2,062,555)	-	(2,062,555)	-
(351,159)	-	(351,159)	-
(132,399)	-	(132,399)	-
-	-	-	66,100
(89,730)	-	(89,730)	-
<u>\$ (2,651,765)</u>	<u>-</u>	<u>(2,651,765)</u>	<u>66,100</u>
-	152,575	152,575	-
<u>-</u>	<u>152,575</u>	<u>152,575</u>	<u>-</u>
\$ 1,312,500	-	1,312,500	-
651,800	-	651,800	225,659
163,120	-	163,120	-
-	-	-	-
768	-	768	-
71,820	-	71,820	-
399,496	-	399,496	-
-	-	-	11
310,322	(347,111)	(36,789)	36,789
<u>\$ 2,909,827</u>	<u>(347,111)</u>	<u>2,562,716</u>	<u>262,459</u>
<u>258,062</u>	<u>(194,536)</u>	<u>63,527</u>	<u>196,359</u>
<u>5,395,541</u>	<u>6,618,006</u>	<u>12,013,547</u>	<u>137,476</u>
<u>(377,760)</u>	<u>-</u>	<u>(377,760)</u>	<u>(135,512)</u>
<u>\$ 5,275,844</u>	<u>6,423,470</u>	<u>11,699,314</u>	<u>198,323</u>

CITY OF MATHIS, TEXAS
BALANCE SHEET
GOVERNMENT FUNDS
SEPTEMBER 30, 2012

	General	Capital Projects Fund	Debt Service Fund	Grant Fund
ASSETS				
Cash and Texpool Accounts	\$ 200,860	-	28,987	-
Receivables and Allowances:				
Inventory	-	-	-	-
Due From Other Governmental Agencies	-	-	-	-
Garbage	36,294	-	-	-
Ad Valorem Taxes	383,492	-	185,784	-
Allowance for Uncollectible Taxes	(76,698)	-	(37,157)	-
Due From Other Funds	-	-	-	-
Prepaid Items	-	-	-	-
TOTAL ASSETS	\$ 543,949	-	177,614	-
LIABILITIES AND FUND BALANCE				
Accounts Payable	\$ 123,257	-	-	-
Other Payables	63,641	-	-	-
Due to Other Funds	249,701	-	-	-
Deferred Revenues	306,794	-	148,627	-
TOTAL LIABILITES	\$ 743,393	-	148,627	-
FUND BALANCE				
Restricted for Special Revenue	\$ -	-	-	-
Restricted for Debt Service	-	-	28,987	-
Restricted for Capital Projects	-	-	-	-
Unassigned	(199,445)	-	-	-
TOTAL FUND BALANCE	\$ (199,445)	-	28,987	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 543,949	-	177,614	-

EXHIBIT C-1

Combination Tax and Surplus Fund	Other Governmental Funds	Total Governmental Funds
-	135,267	365,114
-	-	-
-	-	-
-	152,927	189,221
-	-	569,277
-	-	(113,855)
-	482,873	482,873
-	-	-
<u>-</u>	<u>771,067</u>	<u>1,492,629</u>
-	172,587	295,844
-	-	63,641
-	276,142	525,844
-	-	455,421
<u>-</u>	<u>448,730</u>	<u>1,340,750</u>
-	322,337	322,337
-	-	28,987
-	-	-
-	-	(199,445)
<u>-</u>	<u>322,337</u>	<u>151,879</u>
<u>-</u>	<u>771,067</u>	<u>1,492,629</u>

CITY OF MATHIS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Exhibit C-2

Total Fund Balances - Governmental Funds \$ 151,879

The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.

-

Capital assets are used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including these balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. At the beginning of the year, the costs of these assets were: \$ 9,723,150 and the accumulated depreciation was: \$ (3,778,953)

4,255,375

In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets -- (1,161,305) .

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the governmental-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.

780,227

The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.

(478,872)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and the recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.

567,235

Net assets of Governmental Activities

\$ 5,275,844

The accompanying notes are an integral part of this statement.

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CITY OF MATHIS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Capital Projects Fund	Debt Service Fund	Waste Grant Fund
REVENUES				
Taxes	\$ 1,406,847	-	265,152	-
Licenses and Permits	768	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	402,457	-	-	-
Fines and Penalties	-	-	-	-
Interest	-	-	-	-
Other	707,750	-	-	-
TOTAL REVENUES	<u>\$ 2,517,822</u>	<u>-</u>	<u>265,152</u>	<u>-</u>
EXPENDITURES				
Current				
General Administration	\$ 465,841	-	148,383	-
Cultural and Recreational, Tourism	130,601	-	-	-
Public Safety	1,857,006	-	-	-
Public Works	278,531	-	-	-
Sanitation	402,842	-	-	-
Debt Service				
Principal Retirement	125,345	-	138,000	-
Interest and Fiscal Charges	35,829	-	53,900	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 3,295,995</u>	<u>-</u>	<u>340,283</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (778,173)</u>	<u>-</u>	<u>(75,131)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Capital - related Debt Issued	-	-	-	-
Transfers from Other Funds	407,607	-	264,850	-
Transfer to Other Funds	-	-	(128,511)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 407,607</u>	<u>-</u>	<u>136,340</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (370,566)</u>	<u>-</u>	<u>61,209</u>	<u>-</u>
FUND BALANCE, beginning of year	<u>\$ 171,121</u>	<u>-</u>	<u>(32,222)</u>	<u>-</u>
Prior Period Adjustment	-	-	-	-
FUND BALANCE, end of year	<u><u>\$ (199,445)</u></u>	<u><u>-</u></u>	<u><u>28,987</u></u>	<u><u>-</u></u>

EXHIBIT C-3

Combination Tax and Surplus Fund	Other Governmental Funds	Total Governmental Funds
-	-	1,671,999
-	-	768
-	71,820	71,820
-	-	402,457
-	-	-
-	-	-
-	180,996	888,746
-	252,816	3,035,790
-	-	614,224
-	-	130,601
-	31,556	1,888,561
-	-	278,531
-	-	402,842
-	-	263,345
-	-	89,729
-	-	-
-	31,556	3,667,833
-	221,260	(632,043)
-	-	-
-	42,168	714,625
-	(275,792)	(404,302)
-	(233,624)	310,322
-	(12,364)	(321,721)
-	334,701	473,600
-	-	-
-	322,337	151,879

CITY OF MATHIS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Exhibit C-4

Total Net Change in Fund Balances - Governmental Funds \$ (321,721)

The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets. -

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net assets. 603,235

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. (478,872)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds from bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions as to increase (decrease) net assets. 455,421

Change in Net Assets of Governmental Activities \$ 258,062

The accompanying notes are an integral part of this statement.

CITY OF MATHIS, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012 WITH COMPARATIVE ACTUAL AMOUNTS FOR 2011

Exhibit C-5
2011

	2012			Variance with Final Budget Variance	Actual
	BUDGETED AMOUNTS		Actual		
	Original	Final			
REVENUES					
Taxes					
Property Taxes	815,720	815,720	591,927	(223,793)	650,130
General Sales and Use Taxes	614,054	614,054	651,800	37,746	579,931
Franchise Tax	153,500	153,500	163,120	9,620	151,467
Other Taxes	-	-	-	-	1,782
License and Permits	21,700	21,700	768	(20,932)	13,413
Intergovernmental Revenues	2,300	2,300	-	(2,300)	-
Charges for Services	541,600	541,600	402,457	(139,143)	760,958
Investment Earnings	750	750	0	(750)	1,062
Fines and Forfeitures	-	-	-	-	112,741
Other Revenues	1,317,462	1,317,462	707,750	(609,712)	577,310
Total Revenues	3,467,086	3,467,086	2,517,822	(949,264)	2,848,794
EXPENDITURES					
General Administration	-	-	-	-	157,634
Municipal Court	124,553	124,553	49,208	75,345	126,632
Administration	457,648	457,648	358,133	99,515	189,199
Legislative	-	-	58,499	(58,499)	70,654
Public Safety					
Police	902,680	902,680	696,230	206,450	693,864
Fire	77,587	77,587	77,498	89	67,262
Emerg. Med. Service	630,426	630,426	868,954	(238,528)	639,341
Animal Control	75,340	75,340	143,829	(68,489)	53,701
Code Enforcement	77,585	77,585	70,495	7,090	86,492
Public Works					
Streets Department	476,854	476,854	278,531	198,323	460,174
Sanitation	491,941	491,941	402,842	89,099	-
Culture and Recreation					
Library	25,500	25,500	23,500	2,000	25,500
Parks	126,945	126,945	107,101	19,844	106,129
Debt Service					
Principal	-	-	125,345	(125,345)	-
Interest	-	-	35,829	(35,829)	-
Total Expenditures	3,467,059	3,467,059	3,295,995	171,064	2,676,582
Excess (Deficiency) of Revenues Over (Under) Expenditures	27	27	(778,173)	(778,200)	172,212
OTHER FINANCING SOURCES (USES):					
Capital related Debt Issued	-	-	-	-	-
Transfers In	-	-	407,607	407,607	94,572
Transfers (Out)	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	407,607	407,607	94,572
Net Change in Fund Balance	27	27	(370,566)	(370,593)	266,784
Fund Balance - October 1 (Beginning)	171,121	171,121	171,121	-	(95,663)
Prior period adjustment	-	-	-	-	-
Fund Balance - September 30 (Ending)	171,148	171,148	(199,445)	(370,593)	171,121

The accompanying notes are an integral part of this statement.

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

EXHIBIT D-1

	Business-Type Activities Enterprise Fund <hr/> Utility Fund <hr/>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	122,941
Receivables and Allowances	
Accounts	
Water and Wastewater Billings	139,199
Assessments	-
Other	191
Allowance for Uncollectible Accounts	-
Due from Other Funds	34,076
Bond Issue Cost (Net)	-
Prepaid Items	-
Inventory	-
Total Current Assets	<u>296,407</u>
Non-Current Assets:	
Restricted Assets:	
Cash and Cash Equivalents	
Revenue Bond Constuction	58,264
Total - Non-Current Assets	<u>58,264</u>
Capital Assets	
Land	12,412
Construction in Progress	-
Buildings	222,445
Water System	7,383,959
Sewer System	3,795,999
Infrastructure	0
Vehicles	-
Furniture and Equipment	116,926
Total Capital Assets	11,531,741
Less Accumulated Depreciation	(3,474,379)
Net Capital Assets	<u>8,057,362</u>
TOTAL ASSETS	<u>8,412,033</u>

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

EXHIBIT D-1
 continued

	Business-Type Activities Enterprise Fund <hr/> Utility Fund <hr/>
LIABILITIES	
Current Liabilities	
Accounts Payable	17,022
Accrued Liabilities	120,817
Compensated Absences	29,596
Due to Other Funds	34,077
Capital Leases Payable	133,812
Current Portion of Revenue Bonds Payable	11,000
Customer Meter Deposits	<u>107,064</u>
Total Current Liabilities	<u>453,388</u>
Liabilities (Payable from Restricted Assets):	
Long-Term Liabilities	
Capital Leases Payable	625,175
Revenue Bonds Payable	<u>910,000</u>
Total Long-Term Liabilities	<u>1,535,175</u>
Total Liabilities	<u>1,988,562</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	6,377,376
Restricted for:	
Revenue Bond Retirement	58,264
Unrestricted	<u>(12,169)</u>
Net Assets	<u><u>6,423,470</u></u>

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

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

	Business-Type Activities Enterprise Fund Utility Fund
OPERATING REVENUES	
Water Sales	965,589
Sewer Sales	540,364
Sanitation Fees	4,678
Other Fees and Charges	72,117
Total Operating Revenues	<u>1,582,747</u>
OPERATING EXPENSES	
Personnel Costs	463,863
Contracted Services	52,339
Supplies	12,316
Maintenance	1,890
Self Insurance Claims & Administration	-
Other Operating Expenses	740,334
Subtotal	<u>1,270,742</u>
Water Purchased	-
Depreciation	159,430
Amortization	-
Total Operating Expenses	<u>1,430,172</u>
Net Operating Income	<u>152,575</u>
NON-OPERATING REVENUES (EXPENSES)	
Refunding Bonds Issued	-
Payments to Escrow Agents	-
Grant Income	-
Interest Income	-
Interest and Fiscal Charges	-
Net Non-Operating Revenues (Expenses)	<u>-</u>
Income Before Transfers	<u>152,575</u>
Transfers in	201,861
Transfers (out)	(548,972)
Change in Net Assets	<u>(194,536)</u>
Prior Period Adjustment	<u>-</u>
NET ASSETS BEGINNING OF YEAR	<u>6,618,006</u>
NET ASSETS END OF YEAR	<u>6,423,470</u>

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CITY OF MATHIS, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT E-1

	Agency Funds
Assets	
Cash and cash equivalents	\$ 19,859
Accounts Receivable	35
Total Assets	<u>\$ 19,894</u>
Liabilities	
Due to others	\$ 19,894
Total Liabilities	<u>\$ 19,894</u>

The accompanying notes are an intergral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mathis, Texas (the City) was incorporated by an election held on August 16, 1938 and certified by the San Patricio City Commissioners Court on January 20, 1939. The City operates under charter – City Manager form of government and provides the following services: public safety, public transportation health, culture – recreation, public facilities, legal, election functions, and general administration services.

The Accounting principles of the City of Mathis, Texas conform to generally accepted accounting principles (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Principals Determining Scope of Reporting Entity

The financial statements of the City of Mathis consist only of the fund and account group. The City of Mathis has no oversight responsibility for any other governmental entity. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

A. REPORTING ENTITY

The City Council (the "Council") is elected by the public and it 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 Council is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." The Mathis Economic Development Corporation was formed via an election held on May 3, 1997 authorized by the Mathis City Council per ordinance No. 96-09 and authorized by Section 4B, Article 5190.06, V.T.C.S. A half-cent tax is assessed and collected via the sales tax and funds the projects as well as economic development for the city as allowed per the statute. The affairs of the Corporation are managed by a board of directors which are composed of seven persons appointed by the governing body of the City. The Corporation as a 4-B Sales Taxing entity and is required by generally accepted accounting principles (GAAP) to present the financial statements of the government is considered to be financially accountable. The Corporation, as a component unit of the City of Mathis, Texas, although legally separate entities, are, in substance, part of the governments, operations and so data from these units are combined with data of the City of Mathis, Texas, the primary government. These financial statements are reported in a separate column in the City of Mathis, Texas, financial statements to emphasize it is legally separate from the government.

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

The Cash accounts of the Mathis Economic Development Corporation are as follows:

	Risk Categories			Bank Balance	Carrying Amount
	(1)	(2)	(3)		
Cash Accounts	475,901	-	-	475,901	475,901
Total	<u>475,901</u>	<u>-</u>	<u>-</u>	<u>475,901</u>	<u>475,901</u>

The Corporation's investments are categorized as either (1) insured or registered, or securities held by the Corporation or its agent in the Corporation's name, (2) uninsured and unregistered with securities held by the financial institution's trust department or agent in the Corporation's name or (3) uninsured and unregistered with securities held by the financial institution's trust department or agent not in the Corporation's name. Cash amounts are secured within F.D.I.C. coverage and pledge amounts.

Bond requirements of the Mathis Economic Development Corporation are as follows:

Year Ending September 30	Principal	Interest	Requirement
2013	52,255	15,405	67,660
2014	54,712	13,283	67,995
2015	57,184	11,056	68,240
2016	59,669	8,726	68,395
2017	62,169	6,291	68,460
Thereafter	<u>82,899</u>	<u>4,856</u>	<u>87,755</u>
Total	<u>368,888</u>	<u>59,617</u>	<u>428,505</u>

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Mathis, Texas and its component unit(s) non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Taxes are always general revenues.

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

Inter-fund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as inter-fund transfers. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from's on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

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

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, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors periodically require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before December 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The accounts of the City of Mathis are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounting for with a separate set of self – balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses, as appropriate Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are classified into three categories; governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types. The following fund types and account groups are maintained by the City of Mathis:

GOVERNMENTAL FUNDS

General Fund – The General Fund is the general operating fund of the City of Mathis. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is the fund that is utilized to satisfy general obligations of the City with tax revenues.

Special Revenue Funds – The Special Revenue Funds account for resources generated by proceeds from revenue programs that are designated for or restricted to expenditures for specified purposes.

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

PROPRIETARY FUND

Enterprise Fund – The Enterprise Fund is used to account for the operation of the water and sewer utility system. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Fiduciary Fund – The Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City of Mathis, in a trustee or agency capacity. When these assets are held under the terms of a formal trust agreement, either a “non-expendable” or “expendable” refer to whether or not the City is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government as their agent, holds on behalf of others.

Trust and Agency – The Police Drug fund is used to account for money and property seized in drug raids according to legislation passed during the 71st Legislature of the State of Texas, and a “local agreement” with the state’s attorney. This money is to be used by the police department to combat drug crimes. Other trust monies include the Volunteer Fire Department and the Police Reserve Fund.

E. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All 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. Fund equity (i.e., total net asset) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increase (e.g., revenues) and decreases (e.g., expenses) in total assets.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City of Mathis considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

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

E. BASIS OF ACCOUNTING (continued)

Those revenues considered susceptible to accrual are property taxes, hotel taxes, special assessments, interest income and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenues. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred.

All proprietary funds are using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Utility revenues billed to customers are based on a monthly meter reading. Unbilled utility service revenues have been accrued through September 30, 2012.

F. OTHER ACCOUNTING POLICIES

Investments - The City of Mathis can legally invest in certificates of deposits, repurchase agreements, obligations of the U.S. Government and its Agencies or instrumentalities and State obligations, all of which are recorded at cost.

Restricted Assets - These assets consist of cash and liquid investments accounts restricted for the Water and Sewer Fund debt service. The City of Mathis has several combination debt service and revenue bond obligations. These obligations can be satisfied from either source of funds.

Inventories - Inventories are stated at the lower of cost or market. Inventories of material and supplies held by Water and Sewer Fund are recorded in the Enterprise Fund.

Fixed Assets Accounting - All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at their estimated fair market value on the date of donation. Public domain general fixed assets (infrastructure) consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, etc., have not been capitalized. Such assets are normally immovable and of value only to the City of Mathis, therefore, the purpose of stewardship for these items is satisfied without recording of these assets in governmental funds. No depreciation has been provided on general fixed assets.

Fixed assets of proprietary funds are capitalized in the fund accounts because the fixed assets are used in services sold. Fixed assets are recorded at historical cost if purchased or constructed. Donated assets are recorded at estimated market value as of date of donation. Depreciation of fixed assets for proprietary funds is recognized in determining net income and changes in fund equity. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets, which range from 4 to 50 years.

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

Inter-fund Transactions

During the course of normal operations the City of Mathis has numerous transactions between funds including expenditures and transfers of resources to provide services and service debt. The accompanying financial statements generally reflect such transactions as operating transfers, which are included in the results of operations of both governmental and proprietary funds. Short – term inter-fund loans receivable (reported in “Due from Other Funds”) are considered “available spend-able resources”.

Reclassification and Prior Period Adjustment. Adjustments have been made to correct balances to audit adjustments.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 322,575	\$ -	\$ 322,575	
Buildings	719,961	(490,198)	229,763	
Furniture & Equipment	2,904,263	(1,747,286)	1,156,977	
Capital Leases	-	-	-	
Infrastructure	<u>5,776,351</u>	<u>(1,541,469)</u>	4,234,882	
Change in Net Assets	\$ 9,723,150	\$ (3,778,953)		<u>\$ 5,944,197</u>
<u>Long-term Liabilities at the Beginning of the year</u>				
Bonds Payable	\$ 915,000			
Loans Payable	215,454			
Capital Leases Payable	527,517			
Compensated Absences	30,851			
Other	-			
Change in Net Assets	<u>1,688,822</u>			<u>\$ (1,688,822)</u>
Net Adjustment to Net Assets				<u>\$ 4,255,375</u>

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

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
<u>Current Year Capital Outlay</u>			
Land	\$ -	\$ -	\$ -
Buildings & Improvements	-	-	-
Furniture & Equipment	508,831	508,831	508,831
Construction in Process	-	-	-
Total Capital Outlay	<u>\$ 508,831</u>	<u>\$ 508,831</u>	<u>\$ 508,831</u>
<u>Debt Principal Payments</u>			
Bond Principal	105,000	105,000	105,000
Loan Principal	20,920	20,920	20,920
Capital Lease Payments	66,422	66,422	66,422
Other	-	-	-
Total Principal Payments	<u>192,342</u>	<u>192,342</u>	<u>192,342</u>
Total Adjustment to Net Assets	<u>\$ 701,173</u>	<u>\$ 701,173</u>	<u>\$ 701,173</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 416,669	\$ 416,669	\$ 416,669
Uncollected taxes (assumed collectible) from Current Year Levy	38,752	38,752	38,752
Uncollected Taxes (assumed collectible) from Prior Year Levy	-	-	-
Other	-	-	-
Total	<u>\$ 455,421</u>	<u>\$ 455,421</u>	<u>\$ 455,421</u>

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

Budgets and Budgetary Accounting

The following procedures are used by the City of Mathis in establishing the budgetary data reflected in the financial statements:

- (1) Prior to October 1, the beginning of the fiscal year, the City Manager submits a proposed budget to the Council. The operating budget includes proposed expenditures and the means of financing them. The Budget process begins several months usually in July of the preceding fiscal year starts.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) The budget and the tax levy are legally enacted through the passage of ordinances.
- (4) The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Council.
- (5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Fund, and Proprietary Funds.
- (6) Budgets for the General, Debt Service, Special Revenue and Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or as amended by the City Council.
- (7) Appropriations lapse at year-end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Various line item expenditures exceeded appropriations but overall the City remained within its various departmental budgets.

C. DEFICIT FUND EQUITY

General Fund
Utility Fund
Police Improvement Fund
MIS Information System Fund
Fema Grant Fund
Street Improvements Fund

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

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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 bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,022,220 and the bank balance was \$1,031,323. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.

Category 2 - Cash or Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's investments are classified as Category 1.

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

The City's investments at September 30, 2012, are shown below:

Investment Maturities (In Years)

Investment or Investment Type	Fair Value	Less than 1	1 to 2	2 to 3
Investment in Tex-Pool	719,013	719,013	-	-
Total Fair Value	\$ 719,013	\$ 719,013	\$ -	\$ -

B. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each October 1 on the basis of assessed values at the date the enforceable lien attaches. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

The San Patricio City Appraisal City, assessed at 100% of appraised value establishes appraised values. The San Patricio City Tax Assessor collects the City's tax funds and remits the following month after collections are made.

The City of Mathis allocates and distributes property tax revenues as well as penalties and interest collected thereon to the General Fund and Debt Service Fund based on the percentage of collections and applicable tax rate. Property taxes receivable is recorded as assets and offset by a corresponding entry to deferred revenue. Property tax revenues are recorded revenues, as they become available.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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

D. INTERFUND BALANCES AND TRANSFERS 42,971.49

Inter-fund balances at September 30, 2012, consisted of the following amounts:

Due From:	
General Fund	-
All Others	559,920
Total Due to General Fund from Other Funds	<u>559,920</u>
Due To:	
General Fund	249,701
Internal Service Funds	-
All Others	310,219
Total Due to Major Fund #1	<u>559,920</u>

Inter-fund transfers for the year ended September 30, 2012, consisted of the following individual amounts:

Transfers from Other Funds:	
Major Governmental Funds	560,744
Non-Major Governmental Funds	42,168
All Others	322,322
Total Transfers to General Fund	<u>925,234</u>
Transfers to Other Funds:	
Major Governmental Funds	128,511
Non-Major Governmental Funds	275,792
All Others	520,931
Total Transfers to Nonmajor Governmental Funds	<u>925,234</u>

E. DESEGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2012, were as follows:

	<u>Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 306,794	\$ 36,294	\$ -	\$ 152,927	\$ 496,015
Capital Project Fund	-	-	-	-	-
Debt Service Fund	148,627	-	-	-	148,627
Other Major Governmental Fund	-	-	-	-	-
Non-major Funds	-	-	482,873	-	482,873
Other Funds	-	-	-	-	-
Total - Governmental Activities	<u>\$ 455,421</u>	<u>\$ 36,294</u>	<u>\$ 482,873</u>	<u>\$ 152,927</u>	<u>\$ 1,127,515</u>
Business-Type Activities:					
Major Enterprise Fund #1	\$ -	\$ -	\$ 34,076	\$ 139,390	\$ 173,466
Nonmajor Enterprise Funds	-	-	-	-	-
Total Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,076</u>	<u>\$ 139,390</u>	<u>\$ 173,466</u>

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

Payables at September 30, 2012, were as follows:

	Accounts	Loans, Leases and Bonds Payable Current Year	Salaries and Benefits	Due to Other Funds	Due to Other Govts	Other	Total Payables
Governmental Activities:							
General Fund	\$ 123,257	\$ 266,767	\$ 22,197	\$ 249,701	\$ -	\$ 63,641	\$ 725,563
Debt Service Fund	-	-	-	-	-	-	-
Major Governmental Fund #2	-	-	-	-	-	-	-
Major Governmental Fund #3	-	-	-	-	-	-	-
Nonmajor Governmental Funds	172,587			276,143	-	-	448,730
Internal Service Funds	-	-	-	-	-	-	-
Total - Governmental Activities	<u>\$ 295,844</u>	<u>\$ 266,767</u>	<u>\$ 22,197</u>	<u>\$ 525,844</u>	<u>\$ -</u>	<u>\$ 63,641</u>	<u>\$ 1,174,293</u>
Business-Type Activities:							
Major Enterprise Fund #1	\$ 17,022	\$ 144,812	\$ 29,596	\$ 34,077	\$ -	\$ 120,817	\$ 346,324
Nonmajor Enterprise Funds	-	-	-	-	-	-	-
Total Business-Type Activities	<u>\$ 17,022</u>	<u>\$ 144,812</u>	<u>\$ 29,596</u>	<u>\$ 34,077</u>	<u>\$ -</u>	<u>\$ 120,817</u>	<u>\$ 346,324</u>

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

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			Ending Balances
	Beginning Balances	Increases	Decreases	
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 322,575	\$ -	\$ -	\$ 322,575
Total Capital assets, not being depreciated	<u>322,575</u>	<u>-</u>	<u>-</u>	<u>322,575</u>
Capital Asset being depreciated:				
Buildings and improvements	719,960	-	-	719,960
Machinery, equipment and vehicles	2,904,262	691,631	182,799	3,413,094
Infrastructure	5,776,351	-	-	5,776,351
Total capital assets, being depreciated	<u>9,400,573</u>	<u>691,631</u>	<u>182,799</u>	<u>9,909,405</u>
Less accumulated depreciation for:				
Buildings and improvements	490,197	12,691	-	502,888
Machinery, equipment and vehicles	1,747,286	389,163	-	2,136,449
Infrastructure	1,541,469	77,018	-	1,618,487
Total accumulated depreciation	<u>3,778,952</u>	<u>478,872</u>	<u>-</u>	<u>4,257,824</u>
Total capital assets being depreciated, net	<u>5,621,621</u>	<u>212,759</u>	<u>182,799</u>	<u>5,651,581</u>
Governmental activities capital assets, net	<u>5,944,196</u>	<u>212,759</u>	<u>182,799</u>	<u>5,974,156</u>
Business-type Activities				
Capital Assets, not being depreciated				
Land	12,412	-	-	12,412
Total capital assets, not being depreciated	<u>12,412</u>	<u>-</u>	<u>-</u>	<u>12,412</u>
Capital Assets, being depreciated				
Buildings and improvements	222,445	-	-	222,445
Machinery, equipment and vehicles	107,491	-	-	107,491
Infrastructure	11,170,524	-	-	11,170,524
Total capital assets, being depreciated	<u>11,500,460</u>	<u>-</u>	<u>-</u>	<u>11,500,460</u>
Less accumulated depreciation for:				
Buildings and improvements	171,140	2,789	-	173,929
Machinery, equipment and vehicles	85,666	7,700	-	93,366
Infrastructure	3,058,144	148,940	(1)	3,207,085
Total accumulated depreciation	<u>3,314,950</u>	<u>159,429</u>	<u>(1)</u>	<u>3,474,380</u>
Total capital assets, being depreciated, net	<u>8,185,510</u>	<u>(159,429)</u>	<u>1</u>	<u>8,026,080</u>
Business-type activities capital assets, net	<u>\$ 8,197,922</u>	<u>\$ (159,429)</u>	<u>\$ 1</u>	<u>\$ 8,038,492</u>

Adjustments were made in the business type activities to recognize a loan that was reflected as a grant in the prior year. The construction in progress has been amended also to reflect that loan proceeds.

Depreciation expense was charged to governmental functions as follows:

General Government	212,759
Utility Fund	159,429
Total Depreciation Expense	<u>372,188</u>

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

G. SHORT-TERM DEBT PAYABLE

[GASB 2300.107f] The City accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the State Law. The proceeds from loans are shown in the financial statements as Other Resources and principal payments are shown as Other Uses.

<u>Date of Issue/Maturity</u>	<u>Description</u>	<u>Beginning Balance</u>	<u>Amount Issued</u>	<u>Amount Redeemed</u>	<u>Ending Balance</u>
Bank Loans - Various	Equipment	215,454	13,453	34,373	194,534

H. BONDS AND LONG-TERM NOTES PAYABLE

[GASB 2300.106m and 2200.109 and 2300.106i] Bonded indebtedness of the City is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended September 30, 2012 is as follows:

<u>DESCRIPTION</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Payable Amounts Outstanding</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u>
Cert. of Obligations - 2003	4.60%	1,560,000	40,940	915,000	-	105,000	810,000
Total Governmental Activities			<u>40,940</u>	<u>915,000</u>	<u>-</u>	<u>105,000</u>	<u>810,000</u>

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

I. COMMITMENTS UNDER OPERATING LEASES

[GASB 2300.106j and 1400.108 and L20.128-.129] Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2012, as follows:

None

J. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES

Debt service requirements for bonds in the governmental funds are as follows:

Year Ending September 30	General Obligations		
	Principal	Interest	Total
2013	\$ 110,000	\$ 35,995	\$ 145,995
2014	115,000	30,935	145,935
2015	120,000	25,530	145,530
2016	125,000	20,010	145,010
2017	130,000	14,145	144,145
Thereafter	210,000	9,660	219,660
Totals	\$ 810,000	\$ 136,275	\$ 946,275

Debt service requirements for bonds in the utility fund are as follows:

Year Ending September 30	General Obligations		
	Principal	Interest	Total
2013	\$ 11,000	\$ 42,000	\$ 53,000
2014	12,000	41,500	53,500
2015	12,000	41,000	53,000
2016	13,000	40,500	53,500
2017	13,000	39,900	52,900
Thereafter	860,000	723,400	1,583,400
Totals	\$ 921,000	\$ 928,300	\$ 1,849,300

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

Capital Leases

[GASB 2300.107h and L20.128-.129] Describe the nature of the lease giving its purpose, legal authorization, the amount capitalized, the minimum annual payments, and the effective rate of interest. Governmental Funds:

Year Ending September 30,	
2013	\$ 146,708
2014	146,708
2015	126,350
2016	96,651
2017	-
Thereafter	-
Total Capital Leases	<u>516,417</u>
Less Interest	<u>55,322</u>
Net	<u>\$ 461,095</u>

Capital Leases

[GASB 2300.107h and L20.128-.129] Describe the nature of the lease giving its purpose, legal authorization, the amount capitalized, the minimum annual payments, and the effective rate of interest. Utility Fund:

Year Ending September 30,	
2013	\$ 175,199
2014	175,993
2015	176,986
2016	177,853
2017	182,355
Thereafter	-
Total Capital Lease Payments	<u>888,386</u>
Less Interest	<u>129,400</u>
Net	<u>\$ 758,986</u>

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Vacation and sick leave benefits are accrued by the City of Mathis employees. The City of Mathis has recorded its obligation for unused vacation and sick leave benefits as they are earned by the employees. The total amount accrued as of September 30, 2012 was \$22,197 in the various funds and \$29,596 in the proprietary fund.

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

L. DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Mathis provides pension benefits for all of its eligible employees (except firefighters and part – time personnel) through a non – traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple – employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

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

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

	Plan Year 2010	Plan Year 2011
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	1 to 1	1 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age/Years of Service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to Retirees)	0% of CPI	0% of CPI

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

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

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

1. Annual Required Contribution (ARC)	112,910
2. Interest on Net Pension Obligation	-
3. Adjustment to the ARC	-
4. Annual Pension Cost (APC)	112,910
5. Contributions Made	112,910
6. Increase (Decrease) in net pension obligation	-
7. Net Pension Obligation/(Asset), beginning of year	-
8. Net Pension Obligation/(Asset), end of year	-

The above reflects the employer and employee portion for the fiscal year.

Three year Trend Information

Fiscal Year Ending	Annual Pension Cost	Actual Contributions Made	Percentage of APC Contributed	Net Position Obligation/ (Asset)
2010	125,617	125,617	100%	-
2011	113,341	113,341	100%	-
2012	112,910	112,910	100%	-

The above reflects the annual pension cost for the employer and employee per the monthly Texas Municipal Retirement reports.

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 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Union Credit	Projected Union Credit	Projected Union Credit
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll
GASB 25 Equivalent Single Amortization Period	23.1 years - closed period	100 years- closed period	100 years- closed period
Amortization Period for new Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method	Smoothed Market	Smoothed Market	Smoothed Market
Actuarial Assumptions			
Investment Rate of Return	7.50%	7.00%	7.00%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

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

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	1,585,048	1,498,624	105.8%	(86,424)	1,252,981	-6.9%
12/31/2010	2,389,964	2,096,840	114.0%	(293,124)	1,382,542	-21.2%
12/31/2011	2,553,892	2,128,470	120.0%	(425,422)	1,472,652	-28.9%

Regarding supplemental Death Benefits in compliance with GASB Statement 45, the City does not offer supplemental death benefits to active or retirees for the 2011 or 2012 plan years.

City Supplemental Death to:	Plan Year 2011	Plan Year 2012
Active Employees (Yes or No)	Yes	Yes
Retirees (Yes or No)	Yes	Yes

Contributions

The city contributes to the Supplemental Death Benefits Fund 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 Supplemental Death Benefits Fund 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, 2011 and 2010 were \$8,836, \$9,678, and \$7,518, respectively, which equaled the required contributions each year.

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

M. CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 915,000	\$ -	\$ 105,000	\$ 810,000	\$ 110,000
Notes	215,454	13,453	34,373	194,534	33,576
Equipment Note	-	-	-	-	-
Less Deferred Amount on Refunding	-	-	-	-	-
Total Bonds and Notes Payable	<u>1,130,454</u>	<u>13,453</u>	<u>139,373</u>	<u>1,004,534</u>	<u>143,576</u>
Other Liabilities:					
Capital Leases	527,517	56,295	122,717	461,095	123,191
Compensated Absences	-	-	-	-	-
Claims and Judgments	-	-	-	-	-
Total Other Liabilities	<u>527,517</u>	<u>56,295</u>	<u>122,717</u>	<u>461,095</u>	<u>123,191</u>
Total Governmental Activities Long-Term Liabilities	<u><u>1,657,971</u></u>	<u><u>69,748</u></u>	<u><u>262,090</u></u>	<u><u>1,465,629</u></u>	<u><u>266,767</u></u>
Business-type Activities					
Bonds and Notes Payable:					
Bonds	932,000	-	11,000	921,000	11,000
Loans	-	62,455	11,416	51,039	11,930
Less Deferred Amounts	-	-	-	-	-
Total Bonds and Note Payable	<u>932,000</u>	<u>62,455</u>	<u>22,416</u>	<u>972,039</u>	<u>22,930</u>
Other Liabilities					
Compensated Absences	30,851	-	1,255	29,596	7,399
Capital Leases	885,389	-	126,403	758,986	133,812
Total Other Liabilities	<u>916,240</u>	<u>-</u>	<u>127,658</u>	<u>788,582</u>	<u>141,211</u>
Total Business-type Activities Long-Term Liabilities	<u><u>\$ 1,848,240</u></u>	<u><u>\$ 62,455</u></u>	<u><u>\$ 150,074</u></u>	<u><u>\$ 1,760,621</u></u>	<u><u>\$ 164,141</u></u>

N. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Business Type Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 306,794	\$ -	\$ 148,627	\$ 455,421
Other	-	-	-	-
Total Deferred Revenue	<u><u>\$ 306,794</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 148,627</u></u>	<u><u>\$ 455,421</u></u>

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

O. DUE FROM STATE AGENCIES

The City participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal and state governments as of September 30, 2012, are summarized below.

Fund	State Entitlements	Federal Grants	Total
General	\$ -	\$ -	\$ -
Special Revenue	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 547,321	\$ -	\$ 265,152	\$ -	\$ 812,473
Penalties, Interest and Other					
Tax Related Income	44,606	-	-	-	44,606
Investment Income	-	-	-	-	-
Sales Tax	651,204	-	-	-	651,204
Charges for Services	402,457	-	-	-	402,457
Other	872,234	252,816	-	-	1,125,050
Total	<u>\$ 2,517,822</u>	<u>\$ 252,816</u>	<u>\$ 265,152</u>	<u>\$ -</u>	<u>\$ 3,035,790</u>

Q. RELATED ORGANIZATIONS

The Mathis Economic Development Corporation (the "Corporation"), a not-for-profit entity which was organized to provide additional street and water improvements from a self imposed sales tax from a city wide referendum. The City Council appoints the member board of directors on a periodic basis and is a "related organization" of the City as defined by *Governmental Accounting Standards Board Statement No. 14*.

R. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to reconcile the GASB 34 fixed assets to the sub-ledgers.

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

S. FUND EQUITY - GASB 54 NOTE

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of inter-fund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City of Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or state statute.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

City Fund Balance Policy

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong. The City is working on rebuilding its fund balance.

Fund Balance - GASB 54 Compliance

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The City Council may also delegate authority to persons or parties to assign fund balances in specific circumstances. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows.

<u>Fund Balance Classification</u>	Amount
Restricted	
Federal/State Grants	\$ 322,337
Retirement of Long Term Debt	28,987
Assigned Fund Balances	
Undesignated/Unassigned	-
Unassigned Fund Balance	<u>(199,445)</u>
Total Fund Balances	\$ <u>151,879</u>

T. PRIOR PERIOD ADJUSTMENTS

The City has made adjustments to correct liabilities that should have been recorded in the prior period. Adjustments were also made to the overall GASB entries for leases on reflected on the prior ledgers.

U. SUBSEQUENT EVENTS

The City of Mathis, Texas, has no reportable litigation pending that is not covered by insurance and therefore, no liability is reflected in the financial statements for the September 30, 2012 fiscal year as necessary. The Council has evaluated subsequent events through November 4, 2015, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF MATHIS, TEXAS
REQUIRED SUPPLEMENTARY DISCLOSURE
AS OF SEPTEMBER 30, 2012**

LAST THREE VALUATION DATES

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/2009	1,585,048	1,498,624	(86,424)	105.8%	1,252,981	-6.9%
12/31/2010	2,389,964	2,096,840	(293,124)	114.0%	1,382,542	-21.2%
12/31/2011	2,553,892	2,128,470	(425,422)	120.0%	1,472,652	-28.9%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES AS SUPPLEMENTARY
INFORMATION – COMPARATIVE BALANCE SHEET – GENERAL FUND AND DEBT SERVICE
FUND

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CITY OF MATHIS, TEXAS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

EXHIBIT H-1

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Texpool Accounts	200,860	343,022
Receivables and Allowances:		
Accounts		
Assessments and Fees (net)	36,294	-
Miscellaneous	-	-
Inventory	-	-
Due From Other Governmental Agencies		
Sales Taxes	-	-
Parks and Wildlife	-	-
Ad Valorem Taxes	383,492	387,059
Allowance for Uncollectible Taxes	(76,698)	(28,625)
Due from Other Funds	-	-
Prepaid Items	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>543,949</u>	<u>701,456</u>
LIABILITIES AND FUND BALANCE		
Accounts Payable	123,257	12,025
Other Payables	63,641	58,745
Due to Other Funds	249,701	107,484
Deferred Revenues	306,794	352,081
TOTAL LIABILITIES	<u>743,393</u>	<u>530,335</u>
FUND BALANCE		
Reserve for Inventory	-	-
Reserve for Compensated Balances	-	-
Unreserved		
Undesignated	(199,445)	171,121
TOTAL FUND BALANCE	<u>(199,445)</u>	<u>171,121</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>543,949</u>	<u>701,456</u>

CITY OF MATHIS, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011

EXHIBIT H-2
Page 1 of 2

	2012			2011	
	BUDGETED AMOUNTS		Actual	Budget Variance	Actual
	Original	Final			
REVENUES					
Taxes					
Ad valorem- Current	620,000	620,000	475,455	(144,545)	452,881
Ad valorem- Delinquent	135,000	135,000	71,866	(63,134)	139,746
Ad valorem- Penalty & Interest	60,720	60,720	44,606	(16,114)	57,503
Attest Fees	-	-	-	-	-
City Sales	580,554	580,554	651,204	70,650	579,931
Street Maintenance Sales Tax	33,500	33,500	597	(32,903)	-
EDC Monthly Expense Fee	-	-	-	-	-
Franchise	153,500	153,500	163,120	9,620	151,467
Other	-	-	-	-	1,782
Total Taxes	1,583,274	1,583,274	1,406,847	(176,427)	1,383,310
Licenses and Permits					
Animal Licenses	2,000	2,000	265	(1,735)	1,781
Business Licenses	2,500	2,500	-	(2,500)	-
Building Permits	10,000	10,000	293	(9,707)	6,756
Electrical Permits	3,500	3,500	160	(3,340)	2,565
Plumbing Permits	1,000	1,000	-	(1,000)	280
Other Permits	2,200	2,200	50	(2,150)	1,771
Mechanical Permits	500	500	-	(500)	260
Total Licenses and Permits	21,700	21,700	768	(20,932)	13,413
Mechanical Permits					
Intergovernmental	2,300	2,300	-	(2,300)	-
Total Intergovernmental	2,300	2,300	-	(2,300)	-

CITY OF MATHIS, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011

EXHIBIT H-2
Page 2 of 2

	2012			2011	
	BUDGETED AMOUNTS		Actual	Budget Variance	Actual
	Original	Final			
REVENUES					
Charges for Services					
Rural Fire Calls	45,000	45,000	-	(45,000)	-
Jury Reimbursement Fees	-	-	-	-	-
Weed Control Charges	-	-	-	-	-
Rec Machine Tax	50,000	50,000	-	(50,000)	-
Mixed Beverage Tax	1,600	1,600	-	(1,600)	-
Child Safety Fee	-	-	-	-	-
Refuse Services	445,000	445,000	402,457	(42,543)	760,958
Tax Certificate	-	-	-	-	-
Other Revenue	-	-	-	-	-
Subtotal	541,600	541,600	402,457	(139,143)	760,958
Other Revenues					
Other/Municipal Court Fines	60,000	60,000	29,432	(30,568)	112,741
Interest	750	750	0	(750)	1,062
EMS Billings/Contributions	680,000	680,000	489,249	(190,751)	-
Attorney Fees	-	-	-	-	-
Animal Control Fees	10,000	10,000	11,266	1,266	-
Cash Over/Short	-	-	(0)	(0)	-
Court Fees	23,900	23,900	16,934	(6,966)	-
Sale of Assets	-	-	-	-	-
Miscellaneous	428,102	428,102	125,464	(302,638)	577,310
Other Fees	3,000	3,000	40	(2,960)	-
Copy & Map Sales	100	100	-	(100)	-
Insurance Refund	10,000	10,000	-	(10,000)	-
Debt Share from Other Funds	19,320	19,320	-	(19,320)	-
Juvenile Case Manager	-	-	-	-	-
County EMS Subsidy	32,540	32,540	13,806	(18,734)	-
LEOSE	-	-	-	-	-
State Revenues	50,000	50,000	21,559	(28,441)	-
City Property/Bldg Rental/Land Use	500	500	-	(500)	-
Subtotal	1,318,212	1,318,212	707,750	(610,462)	691,113
Total Revenues	3,467,086	3,467,086	2,517,822	(949,264)	2,848,794
OTHER SOURCES- Operating Transfers					
Capital - related Debt Issued	-	-	-	-	421,000
Transfers	-	-	407,607	407,607	94,572
Total Operating Transfers	-	-	407,607	407,607	515,572
TOTAL REVENUES AND OTHER SOURCES	3,467,086	3,467,086	2,925,429	(541,657)	3,364,366

CITY OF MATHIS, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011

	2012			
	BUDGETED AMOUNTS		Personnel Costs	Supplies & Services
	Original	Final		
Current Expenditures				
General Administration				
Municipal Court	124,553	124,553	25,262	23,946
Administration	457,648	457,648	212,853	145,281
Legislative	-	-	12,183	46,316
Total General Administration	582,201	582,201	250,298	215,544
Public Safety				
Police	902,680	902,680	578,976	117,254
Fire	77,587	77,587	8,742	68,756
Emergency Medical Services	630,426	630,426	357,220	162,316
Animal Control	75,340	75,340	39,427	95,391
Code Enforcement	77,585	77,585	21,274	49,221
Total Public Safety	1,763,618	1,763,618	1,005,638	492,938
Public Works				
Streets Department	476,854	476,854	172,587	105,944
Total Public Works	476,854	476,854	172,587	105,944
Sanitation				
Sanitation	491,941	491,941	-	402,842
Total Sanitation	491,941	491,941	-	402,842
Culture and Recreation				
Library	25,500	25,500	-	23,500
Parks	126,945	126,945	63,126	43,975
Total Parks and Recreation	152,445	152,445	63,126	67,475
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Debt Service	-	-	-	-
Total Current Expenditures	3,467,059	3,467,059	1,491,648	1,284,742

EXHIBIT H-3

			2012	2011
Debt Service	Capital Outlay	Total Actual	Final Budget Variance	Actual
-	-	49,208	75,345	126,632
-	-	358,133	99,515	296,020
-	-	58,499	(58,499)	70,654
-	-	465,841	116,360	493,306
-	-	696,230	206,450	693,864
-	-	77,498	89	67,262
-	349,418	868,954	(238,528)	639,341
-	9,012	143,829	(68,489)	53,701
-	-	70,495	7,090	86,492
-	358,430	1,857,006	(93,388)	1,540,660
-	-	278,531	198,323	460,174
-	-	278,531	198,323	460,174
-	-	402,842	89,099	421,000
-	-	402,842	89,099	421,000
-	-	23,500	2,000	25,500
-	-	107,101	19,844	106,129
-	-	130,601	21,844	131,629
125,345	-	125,345	(125,345)	40,434
35,829	-	35,829	(35,829)	10,379
161,174	-	161,174	(161,174)	50,813
161,174	358,430	3,295,995	171,064	3,097,582

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CITY OF MATHIS, TEXAS
DEBT SERVICE FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

Exhibit H-4

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Cash Equivalents	28,987	34,453
Receivables and Allowances		
Ad Valorem Taxes	148,627	190,655
Allowance for Uncollectible Taxes	0	0
Due from Other Funds	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u><u>177,614</u></u>	<u><u>225,108</u></u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	0	66,675
Due to Other Funds	0	0
Deferred Revenue- Ad Valorem Taxes	<u>148,627</u>	<u>190,655</u>
TOTAL LIABILITIES	<u>148,627</u>	<u>257,330</u>
FUND BALANCE		
Reserve for Debt Service	<u>28,987</u>	<u>(32,222)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>177,614</u></u>	<u><u>225,108</u></u>

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DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012

	2012				2011
	BUDGETED AMOUNTS		Final		Actual
	Original	Final	Actual	Budget Variance	
REVENUES					
Ad valorem Taxes	275,428	275,428	265,152	(10,276)	266,853
Ad valorem- Penalty & Interest	0	0	0	0	0
Total Ad valorem Taxes	275,428	275,428	265,152	(10,276)	266,853
In Lieu Taxes	0	0	0	0	0
Interest	0	0	0	0	1,479
Total Revenues	275,428	275,428	265,152	(10,276)	268,332
EXPENDITURES					
Other Services and Charges	146,290	146,290	148,383	(2,093)	0
Debt Service					
Principal Retirement	101,625	101,625	138,000	(36,375)	174,597
Interest and Fiscal Charges	27,513	27,513	53,900	(26,387)	59,158
Total Expenditures	275,428	275,428	340,283	(64,855)	233,755
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	0	0	(75,131)	(75,131)	34,577
OTHER FINANCING SOURCES (USES)					
Other Financing - Bonds	0	0	0	0	0
Other Sources- Transfers (Out)	0	0	(128,511)	(128,511)	(68,095)
Other Sources- Transfers In	0	0	264,850	264,850	0
Total Other Financing Sources (Uses)	0	0	136,340	136,340	(68,095)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	0	0	61,209	61,209	(33,518)
FUND BALANCE, beginning of year	(32,222)	(32,222)	(32,222)	0	1,296
FUND BALANCE, end of year	(32,222)	(32,222)	28,987	61,209	(32,222)

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SCHEDULES – NON-MAJOR GOVERNMENTAL FUNDS

CITY OF MATHIS, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR 2011

	Court Technology Fund	Court Security Fund	Street Improvements Fund	CDBG Grant Fund
ASSETS				
Cash and Cash Equivalents	1,509	-	73,812	-
Receivables	-	-	-	152,927
Due from Other Governments	-	-	-	-
Due from Other Funds	7,090	32	181,372	-
TOTAL ASSETS	<u>8,599</u>	<u>32</u>	<u>255,184</u>	<u>152,927</u>
LIABILITIES AND FUND BALANCE				
Accounts Payable	-	-	172,587	-
Due to Others	-	-	-	-
Due to Other Funds	-	-	85,145	152,877
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>257,732</u>	<u>152,877</u>
FUND BALANCE				
Committed for Special Revenue	-	-	-	-
Assigned for Special Revenue	8,599	32	(2,549)	50
Restricted for Debt Service	-	-	-	-
TOTAL FUND BALANCE	<u>8,599</u>	<u>32</u>	<u>(2,549)</u>	<u>50</u>
TOTAL LIABILITIES & FUND BALANCE	<u>8,599</u>	<u>32</u>	<u>255,184</u>	<u>152,927</u>

EXHIBIT H-6

Police Improvement Fund	Hotel/ Motel Fund	Park Reserve Fund	Series 2003 Certificate of Obligation Fund	M. I. S. Information System Fund	FEMA Grant Fund	Total Governmental Funds	Total Nonmajor
						2012	2011
116	59,831	-	-	-	-	135,267	103,775
-	-	-	-	-	-	152,927	-
-	-	-	-	-	-	-	-
-	154,798	289	139,292	-	-	482,873	264,700
<u>116</u>	<u>214,629</u>	<u>289</u>	<u>139,292</u>	<u>-</u>	<u>-</u>	<u>771,067</u>	<u>368,475</u>
-	-	-	-	-	-	172,587	511
-	-	-	-	-	-	-	-
4,857	-	-	-	13,565	19,698	276,142	33,263
<u>4,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,565</u>	<u>19,698</u>	<u>448,730</u>	<u>33,774</u>
-	-	-	-	-	-	-	-
(4,741)	214,629	289	139,292	(13,565)	(19,698)	322,337	334,701
-	-	-	-	-	-	-	-
<u>(4,741)</u>	<u>214,629</u>	<u>289</u>	<u>139,292</u>	<u>(13,565)</u>	<u>(19,698)</u>	<u>322,337</u>	<u>334,701</u>
<u>116</u>	<u>214,629</u>	<u>289</u>	<u>139,292</u>	<u>-</u>	<u>-</u>	<u>771,067</u>	<u>368,475</u>

**CITY OF MATHIS, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR 2011**

	<u>Court Technology Fund</u>	<u>Court Security Fund</u>	<u>Street Improvements Fund</u>	<u>CDBG Grant Fund</u>
REVENUE				
Taxes	-	-	-	-
Intergovernmental	-	32	1,546	-
Interest	-	-	-	-
Other	46	-	-	180,950
TOTAL REVENUES	<u>46</u>	<u>32</u>	<u>1,546</u>	<u>180,950</u>
EXPENDITURES				
Current				
Personnel Costs	-	-	-	-
Supplies	-	-	-	-
Other Services and Charges	4,530	-	-	18,271
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>4,530</u>	<u>-</u>	<u>-</u>	<u>18,271</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,484)	32	1,546	162,679
OTHER FINANCE SOURCES (USES)				
OTHER FINANCING - Bonds	-	-	-	-
Transfer In from Other Funds	1,509	-	-	40,659
Transfer (Out) to Other Funds	(153)	-	(30,592)	(228,063)
TOTAL OTHER FINANCE SOURCES(USES)	<u>1,356</u>	<u>-</u>	<u>(30,592)</u>	<u>(187,403)</u>
EXCESS (DEFICIENCY) OF REV. AND OTHER SOURCES OVER EXPENDITURES & OTHER USES	(3,128)	32	(29,046)	(24,724)
FUND BALANCE, beginning of year	11,727	-	26,497	24,774
Prior Period Adjustment	-	-	-	-
FUND BALANCE, end of year	<u>8,599</u>	<u>32</u>	<u>(2,549)</u>	<u>50</u>

EXHIBIT H-7

Police Improvement Fund	Hotel/ Motel Fund	Park Reserve Fund	Series 2003 Certificate of Obligation Fund	M. I. S. Information System Fund	FEMA Grant Fund	Nonmajor Governmental Funds	
						2012	2011
-	-	-	-	-	-	-	129,586
-	70,242	-	-	-	-	71,820	-
-	-	-	-	-	-	-	124
-	-	-	-	-	-	180,996	152,042
<u>-</u>	<u>70,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,816</u>	<u>281,752</u>
-	-	-	-	-	-	-	5,958
-	-	-	-	-	-	-	0
4,607	4,148	-	-	-	-	31,556	50,627
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,189</u>
<u>4,607</u>	<u>4,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,556</u>	<u>255,774</u>
(4,607)	66,093	-	-	-	-	221,260	25,978
-	-	-	-	-	-	-	-
-	-	-	-	-	-	42,168	30,750
<u>(16,806)</u>	<u>(179)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(275,792)</u>	<u>(48,796)</u>
<u>(16,806)</u>	<u>(179)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(233,624)</u>	<u>(18,046)</u>
(21,412)	65,915	-	-	-	-	(12,364)	7,932
16,671	148,714	289	139,292	(13,565)	(19,698)	334,701	326,769
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(4,741)</u>	<u>214,629</u>	<u>289</u>	<u>139,292</u>	<u>(13,565)</u>	<u>(19,698)</u>	<u>322,337</u>	<u>334,701</u>

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ENTERPRISE FUNDS

**CITY OF MATHIS, TEXAS
COMPARATIVE STATEMENTS OF NET ASSETS
UTILITY FUND
SEPTEMBER 30, 2012 AND 2011**

**EXHIBIT I-1
Page 1 of 2**

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	122,941	82,582
Receivables and Allowances		
Accounts		
Water and Wastewater Billings	139,199	349,514
Assessments	0	0
Other	191	0
Allowance for Uncollectible Accounts	0	0
Due from Other Funds	34,076	84,754
Bond Issue Cost (Net)	0	0
Prepaid Items	0	0
Inventory	0	1,068
	296,407	517,918
Total Current Assets		
Non-Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents		
Meter Deposit Funds	58,264	47,825
Revenue Bond Reserve	0	0
Sinking Fund- Bonds	0	0
	58,264	47,825
Total Restricted Assets		
Capital Assets:		
Land	12,412	12,412
Construction in Progress	0	0
Buildings	222,445	222,445
Water System	7,383,959	0
Sewer System	3,795,999	0
Infrastructure	0	11,170,524
Vehicles	0	0
Furniture and Equipment	116,926	107,491
	11,531,741	11,512,872
Total Capital Assets		
Less Accumulated Depreciation	(3,474,379)	(3,314,950)
Net Capital Assets	8,057,362	8,197,922
TOTAL ASSETS	8,412,033	8,763,665

CITY OF MATHIS, TEXAS
 COMPARATIVE STATEMENTS OF NET ASSETS
 UTILITY FUND
 SEPTEMBER 30, 2012 AND 2011

EXHIBIT I-1
 Page 2 of 2

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	17,022	57,420
Accrued Liabilities	120,817	29,172
Compensated Absences	29,596	11,750
Due to Other Funds	34,077	142,032
Capital Leases Payable	133,812	0
Current Portion of Revenue Bonds Payable	11,000	11,000
Customer Meter Deposits	107,064	87,896
	<u>453,388</u>	<u>339,270</u>
Total Current Liabilities		
Long-Term Liabilities		
Capital Leases Payable	625,175	885,389
Revenue Bonds Payable	910,000	921,000
	<u>1,535,175</u>	<u>1,806,389</u>
Total Long-Term Liabilities		
	<u>1,988,562</u>	<u>2,145,659</u>
Total Liabilities		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	6,377,376	6,380,533
Restricted for:		
Revenue Bond Retirement/Other	58,264	0
Unrestricted	(12,169)	237,473
Net Assets	<u><u>6,423,470</u></u>	<u><u>6,618,006</u></u>

**CITY OF MATHIS, TEXAS
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 UTILITY FUND
 YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-2

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for Services		
Water Sales	965,589	1,991,912
Sewer Sales	540,364	-
Sanitation Fees	4,678	-
Other Fees and Charges	<u>72,117</u>	<u>151,107</u>
Total Operating Revenues	<u>1,582,747</u>	<u>2,143,019</u>
OPERATING EXPENSES		
Personnel Costs	463,863	497,789
Contracted Services	52,339	-
Supplies	12,316	33,621
Maintenance	1,890	-
Other Operating Expenses	740,334	1,295,679
Water Purchased	-	-
Depreciation	159,430	157,086
Amortization	-	-
Total Operating Expenses	<u>1,430,172</u>	<u>1,984,175</u>
Net Operating Income	<u>152,575</u>	<u>158,844</u>
NON-OPERATING REVENUES (EXPENSES)		
Refunding Bonds Issued	-	-
Payments to Escrow Agents	-	-
Grant Income	-	-
Interest Income	-	152
Interest and Fiscal Charges	<u>-</u>	<u>(76,167)</u>
Net Non-Operating Revenues (Expenses)	<u>-</u>	<u>(76,015)</u>
Income Before Transfers	<u>152,575</u>	<u>82,829</u>
Transfers in	201,861	-
Transfers out	<u>(548,972)</u>	<u>(8,431)</u>
Change in Net Assets	<u>(194,536)</u>	<u>74,398</u>
Prior Period Adjustment	-	-
NET ASSETS BEGINNING OF YEAR	<u>6,618,006</u>	<u>6,543,608</u>
NET ASSETS END OF YEAR	<u><u>6,423,470</u></u>	<u><u>6,618,006</u></u>

**CITY OF MATHIS, TEXAS
UTILITY FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES- BY FUND
YEAR ENDED SEPTEMBER 30, 2012**

EXHIBIT I

	Utility-Water Fund 80	Utility-Wastewater Fund 90	Customer Service	Meter Deposit	Total
OPERATING REVENUES					
Charges for Services					
Water Sales	937,363	-	569	-	937,931
Sewer Sales	-	540,364	-	-	540,364
Meter Tap/Reconnect Fees	-	-	1,784	2,894	4,678
Water Taps	27,658	-	-	-	27,658
Sewer Taps	-	-	-	-	-
Total Charges for Services	965,020	540,364	2,352	2,894	1,510,630
Other Fees and Charges					
Delinquent Account Penalties	227	-	28,262	-	28,489
Reimbursement	-	-	-	-	-
Other	36,127	5,531	1,971	-	43,628
Total Other Fees and Charges	36,354	5,531	30,233	-	72,117
Total Operating Revenues	1,001,374	545,894	32,585	2,894	1,582,747
OPERATING EXPENSES					
Personnel Costs	303,519	130,617	29,728	-	463,863
Contracted Services	-	-	52,339	-	52,339
Supplies	-	-	12,316	-	12,316
Maintenance	-	-	1,890	-	1,890
Other Operating Expenses	645,632	91,807	-	2,895	740,334
SUBTOTAL	949,151	222,424	96,272	2,895	1,270,742
Water Purchased	-	-	-	-	-
Depreciation	102,035	57,395	-	-	159,430
Amortization	-	-	-	-	-
Total Operating Expenses	1,051,186	279,819	96,272	2,895	1,430,172
NET OPERATING INCOME	(49,812)	266,075	(63,688)	(0)	152,575
NON-OPERATING REVENUES (EXPENSES)					
Refunding Bonds Issued	-	-	-	-	-
Payments to Escrow Agents	-	-	-	-	-
Grant Income	-	-	-	-	-
Interest Income	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Net Non-Operating Revenues (Expenses)	-	-	-	-	-
Income Before Transfers	(49,812)	266,075	(63,688)	(0)	152,575
Transfers in	139,542	-	24,128	38,190	201,861
Transfers (out)	(549,406)	53,348	-	(52,914)	(548,972)
Change in Net Assets	(459,675)	319,423	(39,559)	(14,724)	(194,536)
Prior Period Adjustment	-	-	-	-	-
NET ASSETS BEGINNING OF YEAR	4,399,689	2,171,315	47,002	-	6,618,006
NET ASSETS END OF YEAR	3,940,013	2,490,738	7,443	(14,724)	6,423,470

**CITY OF MATHIS, TEXAS
COMPARATIVE STATEMENTS OF CASH FLOWS
UTILITY FUND
YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-4

	<u>2012</u>	<u>2011</u>
Cash flow from operating activities:		
Cash received from customers	1,844,617	2,020,818
Cash payments to suppliers for goods and services	(710,607)	(1,282,284)
Cash payments to employees for services	(446,017)	(492,709)
Net cash provided by operating activities	<u>687,992</u>	<u>245,825</u>
Cash flows from noncapital financing activities:		
Net transfers to funds	(347,111)	(8,431)
Net Cash flows from non-capital financing activities	<u>(347,111)</u>	<u>(8,431)</u>
Cash Flows from Capital and Related Financing Activities:		
Net Refunds bonds/costs	-	(129,079)
Grant Proceeds	-	-
Principal Payment on bonds	(11,000)	-
Interest and Fiscal Charges Paid	-	(76,167)
Purchase of Fixed Assets/Bond Costs	(18,869)	(6,419)
Other adjustments	(260,215)	-
Net Cash Used for Capital and Related Financing Activities	<u>(290,084)</u>	<u>(211,665)</u>
Cash Flows from Investing Activities- Interest Income	<u>-</u>	<u>152</u>
Net Increase (Decrease) in Cash and Cash Equivalents	50,798	25,881
Cash and Cash Equivalents at Beginning of Year	<u>130,407</u>	<u>104,526</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>181,205</u></u>	<u><u>130,407</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	152,575	158,844
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	159,430	157,086
Amortization	0	0
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable (Net)	210,124	(107,757)
(Increase) Decrease in Due from Other Funds	50,678	(33,147)
(Increase) Decrease in Due from Other Governments	0	0
(Increase) Decrease in Prepaid Items	0	0
(Increase) Decrease in Inventory	1,068	0
Increase (Decrease) in Accounts Payable	(40,398)	3,675
Increase (Decrease) in Accrued Liabilities	91,645	6,616
Increase (Decrease) in Due to Other Funds	(107,955)	96,088
Increase (Decrease) in Capital Leases Payable	133,812	(19,600)
Increase (Decrease) in Compensated Absences	17,846	(1,536)
Increase (Decrease) in Customer Deposits	19,168	(14,444)
Net Cash Provided by Operating Activities	<u><u>687,992</u></u>	<u><u>245,825</u></u>

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