

ANNUAL FINANCIAL REPORT

of the

City of Parker, Texas

**For the Year Ended
September 30, 2012**

(This page intentionally left blank.)

City of Parker, Texas

TABLE OF CONTENTS

September 30, 2012

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets	17
Statement of Activities	18

Fund Financial Statements

Governmental Funds:

Balance Sheet	20
Reconciliation of the Balance Sheet to the Statement of Net Assets- Governmental funds	21
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23

Proprietary Funds:

Statement of Net Assets	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets	25
Statement of Cash Flows	26

Notes to Financial Statements	29
--------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	57
Schedule of Funding Progress-Texas Municipal Retirement System	59

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	65

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Parker, Texas:

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

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City 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 and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brooks Cardiel, PLLC

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
November 26, 2012

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

(This page intentionally left blank.)

City of Parker, Texas

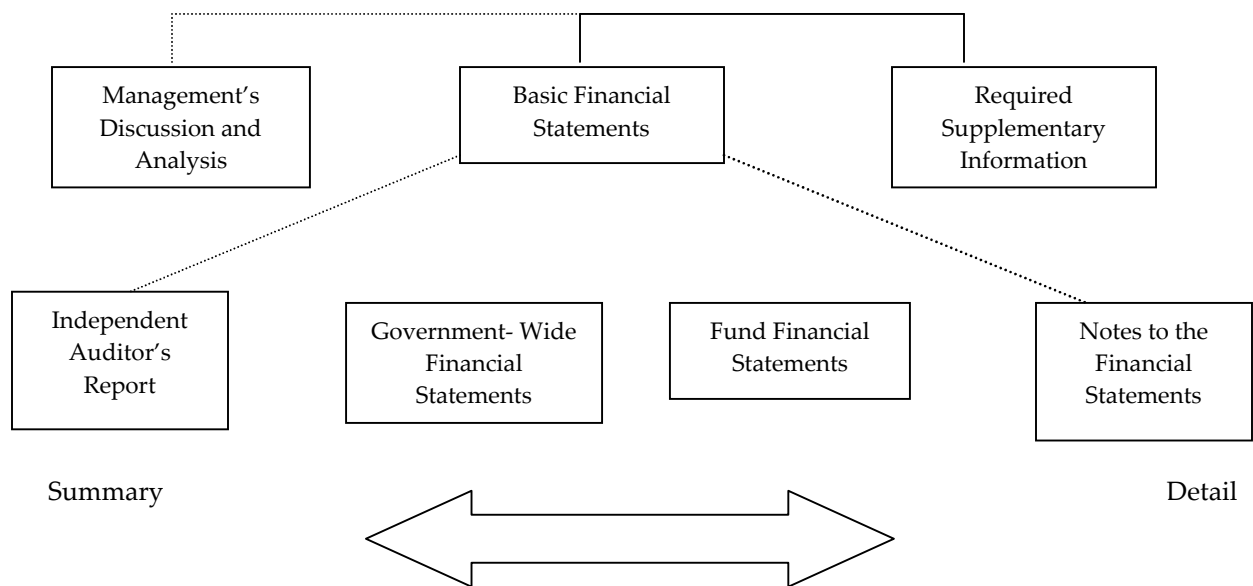
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2012

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the City of Parker's financial activities for the year ending September 30, 2012. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Financial Highlights

- The City's total combined net assets were \$50,248,086 at September 30, 2012. Of this, \$5,812,130 (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$3,510,644, an increase of \$411,357.

City of Parker, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2012

- As of the end of the year, the unassigned fund balance of the general fund was \$3,156,715 or 149% of total general fund expenditures.
- The City had an overall decrease in net assets of \$777,134, which is primarily due to depreciation expense taken on capital assets.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City of Parker. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Assets presents information on all of the City of Parker's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Parker is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into three classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here, including general government, public safety (police, fire, EMS); culture and recreation, and transportation. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services. These services, the City's water distribution, wastewater collection/treatment and sanitation services are reported here.

City of Parker, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2012

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Parker. They are usually segregated for specific activities or objectives. The City of Parker uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City of Parker maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and debt service funds which are considered to be major funds.

The City of Parker adopts an annual appropriated budget for its general, debt service, special revenue, and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water construction operations and sanitation services. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment fund, and sanitation funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net assets may serve over time as a useful indicator of the City's financial position. For the City of Parker, assets exceed liabilities by \$50,248,086 as of September 30, 2012, in the primary government.

The largest portion of the City's net assets, \$44,165,762, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,720,188	\$ 2,675,947	\$ 6,396,135	\$ 3,463,314	\$ 2,640,249	\$ 6,103,563
Capital assets, net	38,084,527	12,990,990	51,075,517	39,632,141	13,079,958	52,712,099
Total Assets	41,804,715	15,666,937	57,471,652	43,095,455	15,720,207	58,815,662
Other liabilities	143,499	132,151	275,650	305,649	79,610	385,259
Long-term liabilities	3,440,311	3,507,605	6,947,916	3,655,619	3,749,564	7,405,183
Total Liabilities	3,583,810	3,639,756	7,223,566	3,961,268	3,829,174	7,790,442
Net Assets:						
Invested in capital assets, net of related debt	34,666,176	9,499,586	44,165,762	36,027,901	9,369,198	45,397,099
Restricted	270,194	-	270,194	248,520	-	248,520
Unrestricted	3,284,535	2,527,595	5,812,130	2,857,766	2,521,835	5,379,601
Total Net Assets	\$ 38,220,905	\$ 12,027,181	\$ 50,248,086	\$ 39,134,187	\$ 11,891,033	\$ 51,025,220

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

Statement of Activities:

The following table provides a summary of the City's changes in net assets:

	For the Year Ended September 30, 2012			For the Year Ended September 30, 2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 383,019	\$ 2,296,960	\$ 2,679,979	\$ 321,083	\$ 2,839,817	\$ 3,160,900
Grants and contributions	191,090	-	191,090	296,311	-	296,311
General revenues:						
Property taxes	1,898,227	-	1,898,227	1,867,500	-	1,867,500
Sales taxes	138,072	-	138,072	101,765	-	101,765
Franchise and local taxes	199,884	-	199,884	206,488	-	206,488
Investment income	47,543	1,858	49,401	74,026	1,767	75,793
Other revenues	136,146	-	136,146	94,304	-	94,304
Total Revenues	2,993,981	2,298,818	5,292,799	2,961,477	2,841,584	5,803,061
Expenses						
General government	798,327	-	798,327	756,952	-	756,952
Public safety	908,634	-	908,634	1,016,882	-	1,016,882
Transportation	1,995,799	-	1,995,799	1,968,623	-	1,968,623
Culture and recreation	13,921	-	13,921	27,775	-	27,775
Interest and fiscal charges	111,918	113,531	225,449	136,517	54,472	190,989
Water, sewer, & sanitation	-	2,127,803	2,127,803	-	2,037,794	2,037,794
Total Expenses	3,828,599	2,241,334	6,069,933	3,906,749	2,092,266	5,999,015
Change in Net Assets Before						
Transfers	(834,618)	57,484	(777,134)	(945,272)	749,318	(195,954)
Transfers	(78,664)	78,664	-	(879,416)	879,416	-
Total	(78,664)	78,664	-	(879,416)	879,416	-
Change in Net Assets	(913,282)	136,148	(777,134)	(1,824,688)	1,628,734	(195,954)
Beginning Net Assets	39,134,187	11,891,033	51,025,220	40,958,875	10,262,299	51,221,174
Ending Net Assets	\$ 38,220,905	\$ 12,027,181	\$ 50,248,086	\$ 39,134,187	\$ 11,891,033	\$ 51,025,220

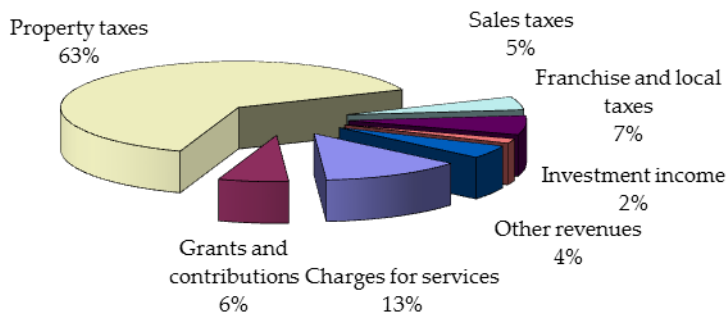
City of Parker, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2012

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

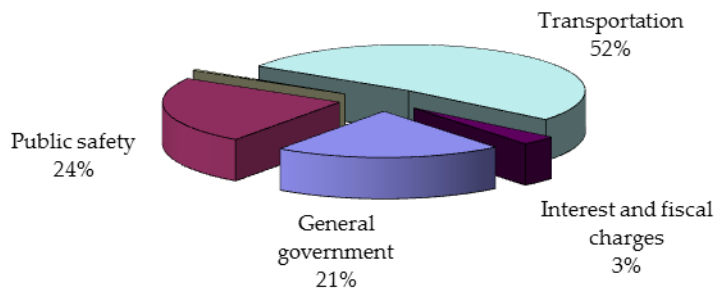
Governmental Activities - Revenues



For the year ended September 30, 2012, revenues from governmental activities totaled \$2,993,981. Property tax, franchise tax and charges for services are the City's largest revenue sources. Sales tax increased \$36,307 or 26% due to an overall recovery in the economy. Grants and contributions decreased by \$105,221 due to several nonrecurring grants received in the prior year. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

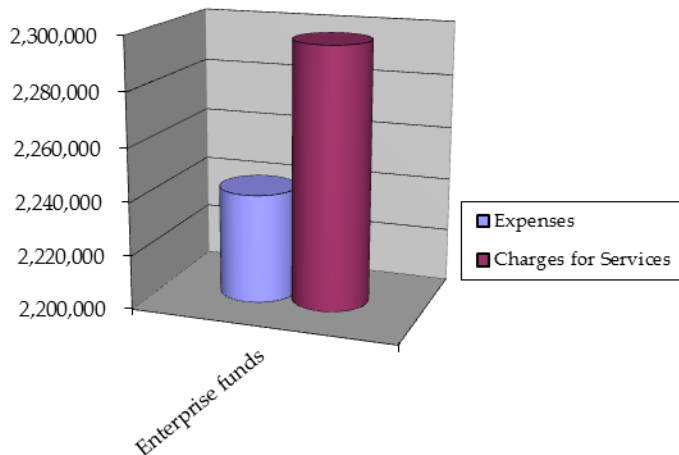


For the year ended September 30, 2012, expenses for governmental activities totaled \$3,828,599. This represents a decrease of \$78,150 or 2% from the prior year. The City's largest functional expense is transportation of \$1,995,799 which is primarily depreciation of transportation related assets. All expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2012, charges for services by business-type activities totaled \$2,296,960. This is a decrease of \$542,857, or 19%, from the previous year. This decrease directly relates to a decrease in the water usage due to a surcharge imposed to conserve water.

Total expenses increased \$149,068 due primarily to additional interest paid on debt during the year. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$3,271,917. Of this, \$31,467 is restricted for municipal court and \$83,735 is committed for capital improvements. Unassigned fund balance totaled \$3,156,715 as of year end.

There was an increase in governmental fund balance of \$411,357 over the prior year. The increase was related to a combination of higher than budgeted revenues and less expenditures than planned. The City has made an effort to address outstanding warrants which has resulted in additional fines revenue.

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$421,150 in the general fund. This is a combination of positive revenue and expenditure variances of \$229,946 and \$231,204, respectively. All revenue sources received more revenue than anticipated with the exception of property and franchise taxes. All expenditures were less than budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$38,084,527 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$12,990,990 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Two police vehicles for a total of \$62,883
- Communication equipment for \$18,818
- Two mowers for \$17,438
- FM 2551 Waterline improvements of \$296,348

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$6,865,000. During the year, the City had a reduction in the long-term debt of \$450,000. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Parker and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

City of Parker, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2012

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Parker's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, 5700 East Parker Road, Parker, Texas 75002.

FINANCIAL STATEMENTS

(This page intentionally left blank.)

City of Parker, Texas

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,715,981	\$ 2,110,506	\$ 3,826,487
Investments	2,136,611	-	2,136,611
Receivables, net	66,496	241,217	307,713
Internal balances	(262,922)	262,922	-
Total Current Assets	3,656,166	2,614,645	6,270,811
Deferred charges	64,022	61,302	125,324
Capital assets:			
Non-depreciable	843,484	107,417	950,901
Net depreciable capital assets	37,241,043	12,883,573	50,124,616
	38,148,549	13,052,292	51,200,841
Total Assets	41,804,715	15,666,937	57,471,652
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	101,614	116,356	217,970
Customer deposits	27,000	-	27,000
Accrued interest payable	14,885	15,795	30,680
	143,499	132,151	275,650
Noncurrent liabilities:			
Due within one year	279,594	299,751	579,345
Due in more than one year	3,160,717	3,207,854	6,368,571
	3,440,311	3,507,605	6,947,916
Total Liabilities	3,583,810	3,639,756	7,223,566
Net Assets			
Invested in capital assets, net of related debt	34,666,176	9,499,586	44,165,762
Restricted	270,194	-	270,194
Unrestricted	3,284,535	2,527,595	5,812,130
Total Net Assets	\$ 38,220,905	\$ 12,027,181	\$ 50,248,086

See Notes to Financial Statements.

City of Parker, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 798,327	\$ 178,969	\$ 4,360
Public safety	908,634	204,050	186,730
Transportation	1,995,799	-	-
Culture and recreation	13,921	-	-
Interest and fiscal charges	111,918	-	-
Total Governmental Activities	3,828,599	383,019	191,090
Business-Type Activities			
Water, Sewer, & Sanitation	2,241,334	2,296,960	-
Total Business-Type Activities	2,241,334	2,296,960	-
Total Primary Government	\$ 6,069,933	\$ 2,679,979	\$ 191,090

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (614,998)	\$ -	\$ (614,998)
(517,854)	-	(517,854)
(1,995,799)	-	(1,995,799)
(13,921)	-	(13,921)
(111,918)	-	(111,918)
<u>(3,254,490)</u>	<u>-</u>	<u>(3,254,490)</u>
-	55,626	55,626
-	55,626	55,626
<u>(3,254,490)</u>	<u>55,626</u>	<u>(3,198,864)</u>
1,898,227	-	1,898,227
138,072	-	138,072
199,884	-	199,884
47,543	1,858	49,401
136,146	-	136,146
(78,664)	78,664	-
<u>2,341,208</u>	<u>80,522</u>	<u>2,421,730</u>
(913,282)	136,148	(777,134)
39,134,187	11,891,033	51,025,220
<u>\$ 38,220,905</u>	<u>\$ 12,027,181</u>	<u>\$ 50,248,086</u>

City of Parker, Texas

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2012

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 1,542,480	\$ 82,691	\$ 90,810	\$ 1,715,981
Investments	2,071,110	-	65,501	2,136,611
Receivables, net	63,406	3,090	-	66,496
Due from other funds	-	1,536	-	1,536
Total Assets	\$ 3,676,996	\$ 87,317	\$ 156,311	\$ 3,920,624
 <u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 99,803	\$ -	\$ 1,811	\$ 101,614
Customer deposits	27,000	-	-	27,000
Due to other funds	264,458	-	-	264,458
Deferred revenue	13,818	3,090	-	16,908
Total Liabilities	405,079	3,090	1,811	409,980
 <u>Fund Balances</u>				
Restricted for:				
Enabling legislation	31,467	-	-	31,467
Debt service	-	84,227	-	84,227
Fire safety	-	-	154,500	154,500
Committed for:				
Capital improvements	83,735	-	-	83,735
Unassigned reported in:				
General fund	3,156,715	-	-	3,156,715
Total Fund Balances	3,271,917	84,227	154,500	3,510,644
Total Liabilities and Fund Balances	\$ 3,676,996	\$ 87,317	\$ 156,311	\$ 3,920,624

See Notes to Financial Statements.

City of Parker, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS

September 30, 2012

Fund Balances - Total Governmental Funds	3,510,644
Adjustments for the Statement of Net Assets:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	\$ 843,484
Capital assets - net depreciable	37,241,043
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
	16,908
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(14,885)
Deferred charges:	
On refunding	91,274
Issuance costs	64,022
Bond premium	(109,685)
Non-current liabilities due in one year	(279,594)
Non-current liabilities due in more than one year	(3,142,306)
Net Assets of Governmental Activities	<u>\$ 38,220,905</u>

See Notes to Financial Statements.

City of Parker, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Property tax	\$ 1,556,163	\$ 338,974	\$ -	\$ 1,895,137
Sales tax	138,072	-	-	138,072
Franchise and local taxes	199,884	-	-	199,884
License and permits	178,969	-	-	178,969
Contributions and donations	83,062	-	103,668	186,730
Intergovernmental	-	-	4,360	4,360
Fines and forfeitures	204,050	-	-	204,050
Investment income	46,605	412	526	47,543
Other revenue	126,419	6,900	2,827	136,146
Total Revenues	2,533,224	346,286	111,381	2,990,891
<u>Expenditures</u>				
Current:				
General government	466,123	-	-	466,123
Police department	686,446	-	-	686,446
Municipal court	122,888	-	-	122,888
Fire department	221,004	-	57,910	278,914
Building and code enforcement	87,056	-	-	87,056
Parks and recreation	4,699	-	-	4,699
Public works	458,019	-	-	458,019
City property	51,326	-	-	51,326
Capital outlay	14,513	-	-	14,513
Debt Service:				
Principal	-	211,785	-	211,785
Interest and fiscal charges	-	119,101	-	119,101
Total Expenditures	2,112,074	330,886	57,910	2,500,870
Excess of Revenues Over Expenditures	421,150	15,400	53,471	490,021
<u>Other Financing (Uses)</u>				
Transfers (out)	-	-	(78,664)	(78,664)
Total Other Financing (Uses)	-	-	(78,664)	(78,664)
Net Change in Fund Balances	421,150	15,400	(25,193)	411,357
Beginning fund balances	2,850,767	68,827	179,693	3,099,287
Ending Fund Balances	\$ 3,271,917	\$ 84,227	\$ 154,500	\$ 3,510,644

See Notes to Financial Statements.

City of Parker, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

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

Net changes in fund balances - total governmental funds	\$	411,357
---------------------------------------------------------	----	---------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		111,580
Depreciation expense		(1,659,194)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		3,090
------------------------------------------------------------------------------------------------------------------------------------	--	-------

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

Compensated absences		917
Accrued interest		8,922

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

Amortization of deferred charges		(10,050)
Amortization of premium		8,311
Principal payments		211,785

Change in Net Assets of Governmental Activities	\$	(913,282)
--------------------------------------------------------	-----------	------------------

See Notes to Financial Statements.

City of Parker, Texas

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2012

	<u>Water, Sewer & Sanitation</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 2,110,506
Receivables, net	241,217
Due from other funds	262,922
Total Current Assets	<u>2,614,645</u>
<u>Noncurrent Assets</u>	
Deferred charges	61,302
Capital assets:	
Non-depreciable	107,417
Net depreciable capital assets	12,883,573
Total Noncurrent Assets	<u>13,052,292</u>
Total Assets	<u>15,666,937</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	116,356
Accrued interest	15,795
Total Current Liabilities	<u>132,151</u>
<u>Noncurrent Liabilities</u>	
Due within one year	299,751
Due in more than one year	3,207,854
Total Liabilities	<u>3,639,756</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	9,499,586
Unrestricted	2,527,595
Total Net Assets	<u>\$ 12,027,181</u>

See Notes to Financial Statements.

City of Parker, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended September 30, 2012

	<u>Water, Sewer & Sanitation</u>
<u>Operating Revenues</u>	
Water sales	\$ 1,664,692
Sewer revenue	150,177
Garbage collection	247,014
Meter installations	63,000
Other revenue	172,077
Total Operating Revenues	<u>2,296,960</u>
<u>Operating Expenses</u>	
Cost of water	1,346,548
Cost of sewer	145,625
Cost of garbage	250,314
Depreciation	385,316
Total Operating Expenses	<u>2,127,803</u>
Operating Income	<u>169,157</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	1,858
Interest expense	(113,531)
Total Nonoperating Revenues (Expenses)	<u>(111,673)</u>
Income Before Transfers	57,484
Transfers in	<u>78,664</u>
Change in Net Assets	136,148
Beginning net assets	<u>11,891,033</u>
Ending Net Assets	<u>\$ 12,027,181</u>

See Notes to Financial Statements.

City of Parker, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2012

	Water, Sewer & Sanitation
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,454,728
Payments to suppliers and employees	(1,674,604)
Net Cash Provided by Operating Activities	780,124
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfer in	78,664
Net Cash Provided by Noncapital Financing Activities	78,664
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(296,348)
Principal paid on debt	(238,215)
Interest paid on debt	(128,290)
Net Cash (Used) by Capital and Related Financing Activities	(662,853)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	1,858
Net Cash Provided by Investing Activities	1,858
Net increase in Cash and Cash Equivalents	197,793
Beginning cash and cash equivalents	1,912,713
Ending Cash and Cash Equivalents	\$ 2,110,506

See Notes to Financial Statements.

City of Parker, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2012

	Water, Sewer & Sanitation
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 169,157
Adjustments to reconcile operating income to net cash provided:	
Depreciation	385,316
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	167,768
Due from other funds	(10,000)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	67,883
Net Cash Provided by Operating Activities	\$ 780,124

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Parker, Texas (the "City") was incorporated on March 22, 1969 and operates under a Council-Manager form of government. The City provides: police; fire; code enforcement; public works; street repair and maintenance; parks; general administrative services; water; wastewater; and sanitation.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Parker Volunteer Fire Department, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Unit

Parker Volunteer Fire Department

The Parker Volunteer Fire Department (the "VFD") was created by City ordinance on February 22, 1983. The purpose of the VFD is to provide fire protection to the citizens of the City. The Fire Chief is the executive officer of the department and is appointed by the Mayor of the City.

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City’s activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government and public safety. The general service fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings, contributed capital or transfers from other funds, other than those recorded in the enterprise funds for acquisition of capital facilities. The capital projects fund is considered a nonmajor fund for reporting purposes.

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

Special Revenue Fund

The volunteer fire department fund (the "VFD") is used to account for contributions and grants that are contributed to the VFD for fire protections. The VFD is considered nonmajor for reporting purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

Water, Sewer, & Sanitation Fund

This fund is used to account for the provision of water, sewer & garbage services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and contract garbage services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

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 resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are 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 pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. 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 statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Fund Equity or Net Assets

1. Deposits and Investments

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

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and equipment	5 to 10 years
Infrastructure	40 years
Water and sewer system	40 years
Buildings and improvements	40 years

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

6. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

8. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

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.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

No expenditures exceeded appropriations at the legal level of control during the year.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2012, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 2,136,611	2.04
External investment pools	1,289,911	0.0
Total fair value	<u>\$ 3,426,522</u>	
Portfolio weighted average maturity		2.04

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2012, the City's investment in TexSTAR was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2012, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexSTAR

The Texas Short Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR use amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexSTAR are the same as the value of TexSTAR shares.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Water, Sewer & Sanitation</u>	<u>Total</u>
Property taxes	\$ 13,818	\$ 3,090	\$ -	\$ 16,908
Sales tax	19,244	-	-	19,244
Franchise	14,350	-	-	14,350
Accounts	-	-	241,217	241,217
Other	15,994	-	-	15,994
	<u>\$ 63,406</u>	<u>\$ 3,090</u>	<u>\$ 241,217</u>	<u>\$ 307,713</u>

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 843,484	\$ -	\$ -	\$ 843,484
Total capital assets not being depreciated	<u>843,484</u>	<u>-</u>	<u>-</u>	<u>843,484</u>
Capital assets, being depreciated:				
Land improvements	177,147	12,500	-	189,647
Buildings and improvements	2,601,792	-	-	2,601,792
Vehicles and equipment	2,048,695	99,080	-	2,147,775
Infrastructure	41,421,393	-	-	41,421,393
Total capital assets being depreciated	<u>46,249,027</u>	<u>111,580</u>	<u>-</u>	<u>46,360,607</u>
Less accumulated depreciation				
Land improvements	-	9,222	-	9,222
Buildings and improvements	325,167	65,086	-	390,253
Vehicles and equipment	1,262,104	116,723	-	1,378,826
Infrastructure	5,873,099	1,468,163	-	7,341,262
Total accumulated depreciation	<u>7,460,370</u>	<u>1,659,194</u>	<u>-</u>	<u>9,119,563</u>
Net capital assets being depreciated	<u>38,788,658</u>	<u>(1,547,614)</u>	<u>-</u>	<u>37,241,043</u>
Total Capital Assets	<u><u>\$ 39,632,141</u></u>	<u><u>\$ (1,547,614)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 38,084,527</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 19,686
Public safety	162,123
Transportation	1,468,163
Culture and recreation	9,222
Total Governmental Activities Depreciation Expense	<u><u>\$ 1,659,194</u></u>

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 107,417	\$ -	\$ -	\$ 107,417
Construction in progress	427,726	-	(427,726)	-
Total capital assets not being depreciated	<u>535,143</u>	<u>-</u>	<u>(427,726)</u>	<u>107,417</u>
Capital assets, being depreciated:				
Water and sewer system	14,858,400	724,074	-	15,582,474
Vehicles and equipment	258,312	-	-	258,312
Total capital assets being depreciated	<u>15,116,712</u>	<u>724,074</u>	<u>-</u>	<u>15,840,786</u>
Less accumulated depreciation				
Infrastructure	2,354,091	376,567	-	2,730,658
Buildings and improvements	217,806	8,749	-	226,555
Total accumulated depreciation	<u>2,571,897</u>	<u>385,316</u>	<u>-</u>	<u>2,957,213</u>
Net capital assets being depreciated	<u>12,544,815</u>	<u>338,758</u>	<u>-</u>	<u>12,883,573</u>
Total Capital Assets	<u><u>\$ 13,079,958</u></u>	<u><u>\$ 338,758</u></u>	<u><u>\$ (427,726)</u></u>	<u><u>\$ 12,990,990</u></u>

Depreciation was charged to business-type activities as follows:

Water	\$ 379,900
Sewer	5,416
Total Business-Type Activities Depreciation Expense	<u><u>\$ 385,316</u></u>

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Refunding Bonds	\$ 3,611,725	\$ -	\$ (211,785)	\$ 3,399,940	\$ 259,830
Premium	117,996	-	(8,311)	109,685	-
Deferred charge on refunding	(96,979)	-	5,705	(91,274)	-
Other liabilities:					
Compensated absences	22,877	51,744	(52,661)	21,960	19,764
Total Governmental Activities	<u>\$ 3,655,619</u>	<u>\$ 51,744</u>	<u>\$ (267,052)</u>	<u>\$ 3,440,311</u>	<u>\$ 279,594</u>
Long-term liabilities due in more than one year				<u>\$ 3,160,717</u>	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Refunding Bonds	\$ 3,703,275	\$ -	\$ (238,215)	\$ 3,465,060	\$ 285,170
Premium	119,605	-	(9,008)	110,597	-
Deferred charge on refunding	(89,519)	-	5,266	(84,253)	-
Other liabilities:					
Compensated absences	16,201	18,170	(18,170)	16,201	14,581
Total Business-Type Activities	<u>\$ 3,749,562</u>	<u>\$ 18,170</u>	<u>\$ (260,127)</u>	<u>\$ 3,507,605</u>	<u>\$ 299,751</u>
Long-term liabilities due in more than one year				<u>\$ 3,207,854</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2010 General obligation refunding bonds (41%)	2.00 - 3.5%	\$ 735,950	\$ 571,950
2011 General obligation refunding bonds (52%)	2.00 - 4.00%	2,959,825	2,827,990
Total Governmental Activities		\$ 3,695,775	\$ 3,399,940
Business-type Activities:			
2010 General obligation refunding bonds (59%)	2.00 - 3.5%	\$ 1,059,050	\$ 823,050
2011 General obligation refunding bonds (48%)	2.00 - 4.00%	2,765,175	2,642,010
Total Business-Type Activities		\$ 3,824,225	\$ 3,465,060
Total Long-Term Debt			
2010 General obligation refunding bonds	2.00 - 3.5%	\$ 1,795,000	\$ 1,395,000
2011 General obligation refunding bonds	2.00 - 4.00%	5,725,000	5,470,000
Total		\$ 7,520,000	\$ 6,865,000

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities			
	2010 G.O. Bonds		2011 G.O. Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 84,050	\$ 17,886	\$ 175,780	\$ 87,382
2014	88,150	15,365	180,950	83,815
2015	90,200	12,720	188,705	80,118
2016	94,300	10,014	191,290	75,840
2017	69,700	7,185	193,875	71,025
2018	71,750	5,094	199,045	65,616
2019	73,800	2,583	204,215	59,567
2020	-	-	211,970	53,325
2021	-	-	217,140	45,802
2022	-	-	224,895	36,962
2023	-	-	237,820	27,707
2024	-	-	155,100	19,849
2025	-	-	134,420	14,294
2026	-	-	100,815	10,001
2027	-	-	103,400	6,170
2028	-	-	108,570	2,090
	<u>\$ 571,950</u>	<u>\$ 70,848</u>	<u>\$ 2,827,990</u>	<u>\$ 739,564</u>

2010 general obligation refunding bonds issued February 11, 2010, due in annual installments through July 15, 2019, bearing interest ranging from 2.0% to 3.5% payable January 15 and July 15. The governmental activities portion is 41% or \$735,950 of the total \$1,795,000 issue.

2011 general obligation refunding bonds issued July 13, 2011, due in annual installments through February 15, 2028, bearing interest ranging from 2.0% to 4.0% payable February 15 and August 15. The governmental activities portion is 52% or \$2,959,825 of the total \$5,725,000 issue.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Business-Type Activities			
	2010 G.O. Bonds		2011 G.O. Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 120,950	\$ 25,739	\$ 164,220	\$ 81,635
2014	126,850	22,110	169,050	78,303
2015	129,800	18,305	176,295	74,849
2016	135,700	14,411	178,710	70,852
2017	100,300	10,340	181,125	66,355
2018	103,250	7,331	185,955	61,301
2019	106,200	3,717	190,785	55,650
2020	-	-	198,030	49,818
2021	-	-	202,860	42,790
2022	-	-	210,105	34,531
2023	-	-	222,180	25,885
2024	-	-	144,900	18,544
2025	-	-	125,580	13,354
2026	-	-	94,185	9,343
2027	-	-	96,600	5,765
2028	-	-	101,430	1,953
	<u>\$ 823,050</u>	<u>\$ 101,952</u>	<u>\$ 2,642,010</u>	<u>\$ 690,927</u>

2010 general obligation refunding bonds issued February 11, 2010, due in annual installments through July 15, 2019, bearing interest ranging from 2.0% to 3.5% payable January 15 and July 15. The business-type activities portion is 59% or \$1,059,050 of the total \$1,795,000 issue.

2011 general obligation refunding bonds issued July 13, 2011, due in annual installments through February 15, 2028, bearing interest ranging from 2.0% to 4.0% payable February 15 and August 15. The business-type activities portion is 48% or \$2,765,175 of the total \$5,725,000 issue.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

The annual requirements to amortize total government-wide debt issues outstanding at year ending were as follows:

Year ending September 30,	2010 G.O. Bonds		2011 G.O. Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 205,000	\$ 43,625	\$ 340,000	\$ 169,018	\$ 545,000	\$ 212,643
2014	215,000	37,475	350,000	162,118	565,000	199,593
2015	220,000	31,025	365,000	154,968	585,000	185,993
2016	230,000	24,425	370,000	146,693	600,000	171,118
2017	170,000	17,525	375,000	137,380	545,000	154,905
2018	175,000	12,425	385,000	126,918	560,000	139,343
2019	180,000	6,300	395,000	115,218	575,000	121,518
2020	-	-	410,000	103,143	410,000	103,143
2021	-	-	420,000	88,593	420,000	88,593
2022	-	-	435,000	71,493	435,000	71,493
2023	-	-	460,000	53,593	460,000	53,593
2024	-	-	300,000	38,393	300,000	38,393
2025	-	-	260,000	27,648	260,000	27,648
2026	-	-	195,000	19,344	195,000	19,344
2027	-	-	200,000	11,935	200,000	11,935
2028	-	-	210,000	4,043	210,000	4,043
	<u>\$ 1,395,000</u>	<u>\$ 172,800</u>	<u>\$ 5,470,000</u>	<u>\$ 1,430,491</u>	<u>\$ 6,865,000</u>	<u>\$ 1,603,291</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

E. Customer Deposits

The City had customer deposits of \$27,000 in the general fund as of year end. The City requires a \$1,000 refundable deposit for all new home building permits. This amount will be refunded upon completion of the project and by meeting certain criteria set by the City.

F. Interfund Transactions

Transfers between the primary government funds during the 2012 year were as follows:

Transfer out	Transfer In	Amount
Capital Projects	Water, Sewer, & Sanitation	\$ 78,664

Amounts transferred between funds relate to amounts collected by the water, sewer, & sanitation fund for various capital expenditures.

The compositions of interfund balances as of year end were as follows:

Funds	Due from	Due to
General:		
Debt Service	\$ -	\$ 1,536
Water, Sewer & Sanitation	-	262,922
Debt Service:		
General	1,536	-
Water, Sewer & Sanitation:		
General	262,922	-
	\$ 264,458	\$ 264,458

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

G. Fund Equity

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances restricted/committed by the City:

	Restricted	Committed
Enabling Legislation	\$ 31,467	\$ -
Debt Service	84,227	-
Fire Safety	154,500	-
Capital Improvements	-	83,735
Total	\$ 270,194	\$ 83,735

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained 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:

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of	60/5, 0/25	60/5, 0/25

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

service)

Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. 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:

Three-Year Contribution Information

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Pension Cost (ARC)	\$ 99,630	\$ 111,241	\$ 97,494
Actual Contributions Made	\$ 99,630	\$ 111,241	\$ 97,494
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation/Asset	-	-	-
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Valuation Date	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	23.3 years; closed period	22.5 years; closed period	21.5 years; closed period
Amortization Period for new	25 years	24 years	22 years

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

Gains/Losses

Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.5%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

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

Fiscal Year	2012
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 1,676,155
Actuarial Accrued Liability	\$ 2,267,887
Percentage Funded	73.9%
Annual Covered Payroll	\$ 983,609
Unfunded Actuarial Accrued Liability	\$ (591,732)
(UAAL) % of Covered Payroll	(60.2)%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may

City of Parker, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2012

terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The City's retiree contribution rates to the TMRS SDBF for the years ended 2012, 2011 and 2010 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.01%	0.01%	100.0%
2011	0.01%	0.01%	100.0%
2012	0.01%	0.01%	100.0%

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code, Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, death, or unforeseeable emergencies.

Federal law requires all assets and income of Section 457 plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. The City's deferred compensation plan is administered by a private corporation under contract with the City. Total participant contributions were approximately \$1,125 for the year ended September 30, 2012. The City does not contribute to the plan.

City of Parker, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2012

F. Restatement

The City has restated beginning fund balance/net assets within governmental activities, Business-type activities, general, and water/sewer/sanitation funds due to a change in the reporting of deposits, accruals and long-term debt. The restatement of beginning net assets/fund balance is as follows:

	Governmental Activities	General Fund
Prior year ending net assets		
fund balance as reported	\$ 39,074,818	\$ 2,793,013
Change in reporting of refundable deposits	21,000	21,000
Change in reporting of franchise tax accrual	36,754	36,754
Change in reporting of long-term debt	1,615	-
Restated beginning net assets/fund balance	\$ 39,134,187	\$ 2,850,767
	Business-Type Activities	Water, Sewer & Sanitation
Prior year ending net assets		
as reported	\$ 11,889,860	\$ 11,889,860
Change in reporting of long-term debt	1,173	1,173
Restated beginning net assets	\$ 11,891,033	\$ 11,891,033

G. Subsequent Events

There were no material subsequent events through November 26, 2012, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

City of Parker, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2012

	Original and Final Budget	2012 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 1,573,528	\$ 1,556,163	\$ (17,365)
Sales tax	90,000	138,072	48,072
Franchise and local taxes	202,400	199,884	(2,516)
License and permits	169,500	178,969	9,469
Contributions and donations	-	83,062	83,062
Fines and forfeitures	139,000	204,050	65,050
Investment income	26,350	46,605	20,255
Other revenue	102,500	126,419	23,919
Total Revenues	2,303,278	2,533,224	229,946
<u>Expenditures</u>			
Current:			
General government	550,922	466,123	84,799
Police department	719,396	686,446	32,950
Municipal court	122,028	122,888	(860)
Fire department	233,850	221,004	12,846
Building and code enforcement	90,892	87,056	3,836
Parks and recreation	8,000	4,699	3,301
Public works	512,355	458,019	54,336
City property	73,850	51,326	22,524
Capital outlay	31,985	14,513	17,472
Total Expenditures	2,343,278	2,112,074	231,204
Revenues Over (Under) Expenditures	(40,000)	421,150	461,150
<u>Other Financing Sources (Uses)</u>			
Transfers in	40,000	-	(40,000)
Total Other Financing Sources	40,000	-	(40,000)
Net Change in Fund Balance	\$ -	421,150	\$ 421,150
Beginning fund balance		2,850,767	
Ending Fund Balance		\$ 3,271,917	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(This page intentionally left blank.)

City of Parker, Texas
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Actuarial Value of Assets	\$ 1,676,155 (a)	\$ 1,550,249 (b)	\$ 1,209,733	\$ 1,036,616
Actuarial Accrued Liability	\$ 2,267,887	\$ 2,167,433	\$ 1,852,407	\$ 1,608,029
Percentage Funded	73.9%	71.5%	65.3%	64.5%
Unfunded Actuarial				
Accrued Liability	\$ 591,732	\$ 617,184	\$ 642,674	\$ 571,413
Annual Covered Payroll	\$ 983,609	\$ 1,023,346	\$ 1,023,346	\$ 969,936
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	60.2%	60.3%	62.8%	58.9%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 99,630	\$ 111,241	\$ 111,241	\$ 97,494
Contributions Made	\$ 99,630	\$ 111,241	\$ 111,241	\$ 97,494
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(a) Actuarial valuation performed under the new fund structure

(b) Actuarial valuation performed under the old fund structure

(This page intentionally left blank.)

***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

(This page intentionally left blank.)

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Parker Volunteer Fire Department fund accounts for revenues received and expenditures incurred for the fire safety and protection of the citizens of Parker, Texas.

CAPITAL PROJECTS FUND

Capital projects fund is used to account for the acquisition and construction of major capital facilities other than those finance by proprietary funds and trust funds.

City of Parker, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012

	Parker Volunteer Fire Department	Capital Projects	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 90,810	\$ -	\$ 90,810
Investments	65,501	-	65,501
Total Assets	\$ 156,311	\$ -	\$ 156,311
<u>Liabilities</u>			
Accounts payable	\$ 1,811	\$ -	\$ 1,811
Total Liabilities	1,811	-	1,811
<u>Fund Balances</u>			
Restricted for:			
Fire safety	154,500	-	154,500
Total Fund Balances	154,500	-	154,500
Total Liabilities and Fund Balances	\$ 156,311	\$ -	\$ 156,311

City of Parker, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	<u>Volunteer Fire Department</u>	<u>Capital Projects</u>	<u>Total</u>
<u>Revenues</u>			
Donations and fundraisers	\$ 103,668	\$ -	\$ 103,668
Intergovernmental	4,360	-	4,360
Investment income	506	20	526
Other income	2,827	-	2,827
Total Revenues	<u>111,361</u>	<u>20</u>	<u>111,381</u>
<u>Expenditures</u>			
Fire department	57,910	-	57,910
Total Expenditures	<u>57,910</u>	<u>-</u>	<u>57,910</u>
Revenues Over Expenditures	<u>53,451</u>	<u>20</u>	<u>53,471</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers (out)	-	(78,664)	(78,664)
Total Other Financing (Uses)	<u>-</u>	<u>(78,664)</u>	<u>(78,664)</u>
Net Change in Fund Balances	53,451	(78,644)	(25,193)
Beginning fund balances	101,049	78,644	179,693
Ending Fund Balances	<u>\$ 154,500</u>	<u>\$ -</u>	<u>\$ 154,500</u>

(This page intentionally left blank.)