

ANNUAL FINANCIAL REPORT

City of Aledo, Texas

Year ended September 30, 2012

This page intentionally left blank

City of Aledo, Texas

Annual Financial Report

Year ended September 30, 2012

Contents

Introductory Section

List of Principal Officials	i
-----------------------------------	---

Financial Section

Report of Independent Auditors	1
--------------------------------------	---

Required Supplementary Information:

Management's Discussion and Analysis (unaudited)	3
--	---

Basic Financial Statements

Government-wide Financial Statements	
--	--

Statement of Net Assets	10
-------------------------------	----

Statement of Activities	11
-------------------------------	----

Fund Financial Statements

Governmental Funds

Balance Sheet – Governmental Funds	12
--	----

Reconciliation of the Governmental Funds Balance Sheet to the

Statement of Net Assets	13
-------------------------------	----

Statement of Revenues, Expenditures, and Changes in Fund Balances –

Governmental Funds	14
--------------------------	----

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,

and Changes in Fund Balances to the Statement of Activities	15
---	----

Proprietary Funds

Statement of Net Assets	16
-------------------------------	----

Statement of Revenues, Expenses and Changes in Fund Net Assets	18
--	----

Statement of Cash Flows	19
-------------------------------	----

Notes to Basic Financial Statements	20
---	----

Required Supplementary Information:

Schedule of Funding Progress for Participation in Texas Municipal Retirement System	39
---	----

Budgetary Comparison Schedule – General Fund	40
--	----

Budgetary Comparison Schedule – Economic Development Corporation	41
--	----

Budgetary Comparison Schedule – Water and Sewer Debt Service Fund	42
---	----

Budgetary Comparison Schedule – Water and Sewer Fund	43
--	----

Notes to Required Supplementary Information	44
---	----

Other Information Section

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	45
--	----

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	47
---	----

Schedule of Expenditures of Federal Awards	49
--	----

Schedule of Findings and Questioned Costs	50
---	----

This page intentionally left blank

Introductory Section

This page intentionally left blank

City of Aledo, Texas

Principal Officials

City Council

Kit Marshall, Mayor

Kerby Smith – Place 1

Jean Bailey – Place 2

Bill McLeRoy – Place 3 – Mayor Pro Tem

Randy Watkins – Place 4

Matt Casey - Place 5

This page intentionally left blank

Financial Section

This page intentionally left blank



Report of Independent Auditors

To the Honorable Mayor and City Council
City of Aledo, Texas

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Aledo, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2013, on our consideration of the City of Aledo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 39 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic



VAIL & KNAUTH, LLP

CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Aledo, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of the City of Aledo. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Aledo, Texas' financial statements as a whole. The management's discussion and analysis on pages 3 through 9, and supplemental information schedules pages 38 to 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vail + Knauth, LLP

Dallas, Texas
February 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

Management's discussion and analysis (MD&A) of the City of Aledo's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2012. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded liabilities at the close of the 2012 fiscal year by \$10,453,909 (net assets, page 11). Of this amount, \$2,594,685 is restricted for specific purposes and \$1,531,667 represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors. As required by GASB Statement No. 34, net assets also reflect \$6,327,557 that is invested in capital assets net of related debt.

In contrast to the government-wide statements, the governmental fund statements report combined fund balances at year-end on page 12 of \$1,902,602 of which \$313,927 represents restricted fund balance for Economic Development. Unassigned fund balance in the General Fund is maintained as emergency reserves. The General Fund unassigned fund balance of \$1,588,675 equals 165% of total General Fund expenditures.

Following is a table of the City's designated uses of unrestricted cash balances as of September 30, 2012.

CITY OF ALEDO, TEXAS				
DESIGNATED USES OF UNRESTRICTED CASH BALANCES				
SEPTEMBER 30, 2012				
	General Fund	W/WW Operating Fund	EDC Fund	TOTAL
Unrestricted Cash and Cash Equivalents	\$ 1,583,180	\$ 1,090,646	\$ 288,995	\$ 2,962,821
Designated Uses of Unrestricted Cash				
90 Days Reserve	264,680	451,696	-	716,376
Emergency Reserves	100,000	100,000	-	200,000
Municipal Court Reserves	4,265	-	-	4,265
Future Water Meter Change Outs	-	22,500	-	22,500
W/WW Rate Offset	-	150,000	-	150,000
Projects:				
Community Center Sign	650	-	8,500	9,150
Park Master Plan (UTA Study)	18,000	-	-	18,000
Park Pavilion	20,000	-	-	20,000
Parks of Aledo Inspection Fee	48,770	-	-	48,770
Server Modifications IT Equipment Room	10,000	-	-	10,000
Omitted Property Taxes	207,514	-	-	207,514
Total Designated Uses of Unrestricted Cash	673,879	724,196	8,500	1,406,575
Remaining Undesignated Cash and Cash Equivalents	\$ 909,301	\$ 366,450	\$ 280,495	\$ 1,556,246

On page 33, the City's debt for certificates of obligation in the business-type activities increased by \$4,120,000 for new debt issued in 2012, and was decreased by \$365,000 due to principal portion of scheduled annual debt service payments. The City's debt for capital leases in the business-type activities decreased by \$39,224 due to the scheduled payment of principal on capital leases.

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector business. They present the financial picture of the City from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the City (excluding infrastructure purchased or donated prior to October 1, 2003) as well as all liabilities. Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables, and receivables.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year using the full accrual basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other business functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Administration, Public Works and Streets, Municipal Court, Parks and Recreation, and the Community Center. Appropriations with a contract are made to the Aledo Volunteer Fire Department, East Parker County Library, and the Parker County Sheriff's Office. The business-type activity of the City is Water and Sewer Operations and contracting for solid waste services. All governmental and business-type activities included in the government-wide financial statements are functions of the City (known as the primary government). The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, 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 fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 the comparison between governmental funds and governmental activities.

The City maintains two governmental funds, the general fund and the economic development corporation fund. 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 fund, and the economic development corporation fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement (original versus final) has been provided in this report to demonstrate compliance with this budget. The governmental fund financial statements can be found on pages 13 through 16 of this report.

Proprietary funds - Proprietary funds can be further classified into two different types of funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City allocates costs directly to the operating departments and accordingly does not account or report any internal service funds.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 17 through 19 of this report.

Notes to the basic financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 38 of this report.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning pension benefits. The required supplementary information can be found starting on page 39 of this report.

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,453,909 as of September 30, 2012.

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Current and Other Assets	\$ 1,966,166	\$ 1,763,343	\$ 5,515,857	\$ 8,741,641	\$ 7,482,023	\$ 10,504,984
Capital Assets	1,263,478	1,295,293	18,416,854	11,100,111	19,680,332	12,395,404
Total Assets	3,229,644	3,058,636	23,932,711	19,841,752	27,162,355	22,900,388
Long-term Liabilities Outstanding	13,780	-	15,465,132	11,336,722	15,478,912	11,336,722
Other Liabilities	57,956	206,440	1,182,078	1,868,030	1,240,034	2,074,470
Total Liabilities	71,736	206,440	16,647,210	13,204,752	16,718,946	13,411,192
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	1,263,478	1,295,293	5,064,079	5,753,966	6,327,557	7,049,259
Restricted for:						
Debt service	-	-	-	120,946	-	120,946
Economic Development	313,927	237,267	-	-	313,927	237,267
Capital improvements	-	-	1,651,318	-	1,651,318	-
Impact fees	-	-	545,684	527,721	545,684	527,721
Unrestricted	1,580,503	1,319,636	24,420	234,367	1,604,923	1,554,003
Total Net Assets	\$ 3,157,908	\$ 2,852,196	\$ 7,285,501	\$ 6,637,000	\$ 10,443,409	\$ 9,489,196

The largest portion of the City's net assets (60%) reflects its investment in capital assets (land, building, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses those assets to provide services to the 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 capital assets themselves cannot be used to liquidate these liabilities. An additional \$5,594,685 or 25% of the City's net assets represents resources that are subject to external restrictions on how they may be used. All restricted assets of the City are being held for capital improvements, debt service requirements on the City's outstanding debt, and economic development. The remaining portion of the City's net assets (15%) may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Revenue						
Program revenue						
Charges for Services	\$ 176,586	\$ 102,536	\$ 1,715,383	\$ 1,629,167	\$ 1,891,969	\$ 1,731,703
Operating grants and contributions	-	24,553	-	-	-	24,553
General revenue						
Property Taxes	339,418	311,709	328,853	340,857	668,271	652,566
Sales Taxes	437,374	405,720	-	-	437,374	405,720
Franchise Taxes	222,632	199,898	-	-	222,632	199,898
Interest on Investments	1,609	1,881	2,531	825	4,140	2,706
Miscellaneous	48,622	18,021	19,241	16,232	67,863	34,253
Total revenues	1,226,241	1,064,318	2,066,008	1,987,081	3,292,249	3,051,399
Expense						
Administration	556,075	604,179	-	-	556,075	604,179
Public works and city streets	378,122	243,735	-	-	378,122	243,735
Municipal court	5,555	9,130	-	-	5,555	9,130
Parks and recreation	46,139	20,522	-	-	46,139	20,522
Community center	41,325	41,598	-	-	41,325	41,598
Water and Sewer	-	-	1,393,000	1,157,827	1,393,000	1,157,827
Total expenses	1,027,216	919,164	1,393,000	1,157,827	2,420,216	2,076,991
Change in Net Assets Before Transfers	199,025	145,154	673,008	829,254	872,033	974,408
Transfers	106,687	83,536	(106,687)	(83,536)	-	-
Change in Net Assets	305,712	228,690	566,321	745,718	872,033	974,408
Net assets, beginning of year	2,852,196	2,623,506	6,719,180	5,973,462	9,571,376	8,596,968
Net assets, end of year	3,157,908	2,852,196	7,285,501	6,719,180	10,443,409	9,571,376

In total, the City's total net assets increased by \$872,033 during the current fiscal year. The City's governmental activities increased net assets by \$305,712. The total cost of all governmental activities this year was \$1,027,216. The amount that taxpayers paid for these activities through property taxes was \$339,418 or 33%. The City's business-type activities increased net assets by \$566,321. The total cost of all business-type activities for fiscal year 2012 was \$1,393,000.

Governmental activities – Governmental activities increased the City's net assets by \$305,712. The key elements of this increase are as follows:

- General Fund
 - Actual revenues exceeded budgeted revenues by \$157,966
 - Actual expenditures were less than budgeted expenditures by \$95,405

Business-type activities – Business-type activities increased the City's net assets by \$566,321. The key element of this change in net assets is an increase in revenue compared to the prior year.

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,902,602 (page 12), an increase of \$341,497 from the prior year. Unassigned fund balance reported in the general fund of \$1,588,675 represents amounts available for spending at the City's discretion.

As a measure of the General Fund's liquidity, we compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 165% of the total fund expenditures, an increase of \$97,537. The key factor in this increase was savings through efficient operation of various City Departments.

GENERAL FUND BUDGETARY HIGHLIGHTS

Adjustments to the original 2011-2012 General Fund annual budget can be briefly summarized as increased revenues from sales taxes, franchise fees, and donations in the amount of \$140,165, offset by higher expenses of utilities, audit expense, litigation of \$40,870.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: The City's investments in total capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$19,680,332 (net of accumulated depreciation on page 29). Investments in capital assets related to governmental activities of \$1,263,478 which includes land and land rights, construction in progress, buildings and improvements, street reconstruction, other improvements, vehicles, and office furniture and equipment. The City's investments in capital assets related to business-type activities is \$18,416,854 which includes land and land rights, construction in progress, the water and sewer system, vehicles and other equipment. The major capital asset event during the current fiscal year was the construction of a new Wastewater Treatment Plant. See Note 5 for additional information on the City's capital assets.

	Governmental Activities		Business-type Activities		Total	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Land	\$ 102,855	\$ 102,855	\$ 347,589	\$ 344,038	\$ 450,444	\$ 446,893
Construction in Progress	9,086	-	13,749,041	6,281,127	13,758,127	6,281,127
Water system	-	-	2,429,752	2,412,012	2,429,752	2,412,012
Sewer system	-	-	4,258,075	4,258,075	4,258,075	4,258,075
Buildings and improvements	340,715	322,211	3,210	3,210	343,925	325,421
Street infrastructure	1,018,534	905,124	-	-	1,018,534	905,124
Vehicles	45,842	29,206	124,953	124,953	170,795	154,159
Machinery and equipment	88,886	88,886	194,964	190,359	283,850	279,245
Other improvements	183,102	183,102	-	-	183,102	183,102
Total	<u>\$ 1,789,020</u>	<u>\$ 1,631,384</u>	<u>\$ 21,107,584</u>	<u>\$ 13,613,774</u>	<u>\$ 22,896,604</u>	<u>\$ 15,245,158</u>

CITY OF ALEDO, TEXAS
Management's Discussion and Analysis
Year Ended September 30, 2012

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)

Long-term debt - At the end of the current fiscal year, the City had total debt outstanding of \$15,456,721. Of this amount, \$15,385,000 represents certificates of obligation secured by property tax collections and \$71,721 represents capital leases. The City's total debt increased by \$3,715,777 during the current fiscal year.

	Governmental Activities		Business-type Activities	
	FY 2011-12	FY 2010-11	FY 2011-12	FY 2010-11
Capital Leases	\$ -	\$ -	\$ 71,721	\$ 110,945
Certificates of Obligation	-	-	15,385,000	11,630,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,456,721</u>	<u>\$ 11,740,945</u>

State statutes limit the total property tax rate to \$2.50 per \$100 assessed valuation. The City's total property tax rate for was as follows for 2011-12 and 2012-13:

- 2011-12 : \$0.3943 per \$100 assessed valuation, of which \$0.2050 was for annual water and sewer debt service;
- 2012-13: \$0.3943 per \$100 assessed valuation, of which \$0.1943 was for annual water and sewer debt service.

Additional information on the City's long-term debt can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

In considering the fiscal year 2013 budget, City Council and management considered the following factors:

- The FY13 adopted property tax rate (0.3943) remained the same as the previous year.
- No new positions were budgeted.
- The major expenditure categories, including debt service, were for infrastructure improvements - the new wastewater treatment plant, the water system improvements project to connect to the Fort Worth water supply and City street improvements.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the City finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the City Secretary at: 200 Old Annetta Road, Aledo TX 76008.

BASIC FINANCIAL STATEMENTS

City of Aledo, Texas
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,872,175	\$ 1,090,646	\$ 2,962,821
Receivables (net of allowance for uncollectible)	14,954	211,489	226,443
Due from other governments	79,037	-	79,037
Inventory	-	5,756	5,756
Restricted cash and cash equivalents - current	-	1,232,384	1,232,384
Bond issuance costs	-	452,629	452,629
Restricted cash and cash equivalents	-	2,522,953	2,522,953
Capital Assets:			
Land	102,855	347,589	450,444
Construction in progress	9,086	13,749,043	13,758,129
Buildings and improvements	340,715	3,210	343,925
Automobiles	45,842	124,953	170,795
Machinery and equipment	88,886	194,962	283,848
Water and sewer system	-	6,687,827	6,687,827
Other improvements	183,102	-	183,102
Street infrastructure	1,018,534	-	1,018,534
Accumulated depreciation	(525,542)	(2,690,730)	(3,216,272)
Total capital assets	<u>1,263,478</u>	<u>18,416,854</u>	<u>19,680,332</u>
Total assets	<u>3,229,644</u>	<u>23,932,711</u>	<u>27,162,355</u>
Liabilities			
Cash overdraft	33,198	-	33,198
Accounts payable and accrued liabilities	24,758	67,154	91,912
Payable from restricted assets:			
Accounts payable	-	612,942	612,942
Retainage payable	-	334,404	334,404
Accrued interest	-	75,374	75,374
Customer deposits	-	92,204	92,204
Noncurrent liabilities:			
Due within one year	13,780	611,103	624,883
Due in more than one year	-	14,854,029	14,854,029
Total liabilities	<u>71,736</u>	<u>16,647,210</u>	<u>16,718,946</u>
Net Assets			
Invested in capital assets, net of related debt	1,263,478	5,064,079	6,327,557
Restricted for:			
Economic development	313,927	-	313,927
Capital improvement	-	1,651,318	1,651,318
Impact fees	-	545,684	545,684
Unrestricted	<u>1,580,503</u>	<u>24,420</u>	<u>1,604,923</u>
Total net assets	<u>\$ 3,157,908</u>	<u>\$ 7,285,501</u>	<u>\$ 10,443,409</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Activities
Year Ended September 30, 2012

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental activities:								
Administration	\$ 556,075	\$ 81,176	\$ -	\$ -	\$ (474,899)	\$ -	\$ (474,899)	
Public works	178,264	-	-	-	(178,264)	-	(178,264)	
City streets	199,858	-	-	-	(199,858)	-	(199,858)	
Municipal court	5,555	85,350	-	-	79,795	-	79,795	
Parks and recreation	46,139	-	-	-	(46,139)	-	(46,139)	
Community center	41,325	10,060	-	-	(31,265)	-	(31,265)	
Total governmental activities	1,027,216	176,586	-	-	(850,630)	-	(850,630)	
Business-type activities:								
Water and sewer	1,393,000	1,715,383	-	-	-	322,383	322,383	
Total business-type activities	1,393,000	1,715,383	-	-	-	322,383	322,383	
Total primary government	\$ 2,420,216	\$ 1,891,969	\$ -	\$ -	(850,630)	322,383	(528,247)	
General revenues:								
Taxes								
Property taxes					339,418	328,853	668,271	
Sales taxes					437,374	-	437,374	
Franchise taxes					222,632	-	222,632	
Interest on investments					1,609	2,531	4,140	
Miscellaneous					48,622	19,241	67,863	
Transfers					106,687	(106,687)	-	
Total general revenues and transfers					1,156,342	243,938	1,400,280	
Change in net assets					305,712	566,321	872,033	
Net assets - beginning					2,852,196	6,719,180	9,571,376	
Net assets - ending					\$ 3,157,908	\$ 7,285,501	\$ 10,443,409	

The accompanying notes are an integral part of this statement.

City of Aledo, Texas

Balance Sheet - Governmental Funds

September 30, 2012

	General Fund	Economic Development Fund	Total Governmental Funds
Assets			
Deposits and investments	\$ 1,583,180	\$ 288,995	\$ 1,872,175
Receivables:			
Property taxes, net of allowance of \$1,244	7,051	-	7,051
Accounts receivable	7,903	-	7,903
Due from other governments - sales tax	52,691	26,346	79,037
Total assets and other debits	<u>1,650,825</u>	<u>315,341</u>	<u>1,966,166</u>
Liabilities and Fund Balances			
Liabilities:			
Cash Overdraft	33,198	-	33,198
Accounts payable	20,766	1,414	22,180
Accrued liabilities	2,578	-	2,578
Deferred income	5,608	-	5,608
Total liabilities	<u>62,150</u>	<u>1,414</u>	<u>63,564</u>
Fund balances:			
Restricted, Economic Development	-	313,927	313,927
Unassigned, reported in general fund	1,588,675	-	1,588,675
Total fund balances	<u>1,588,675</u>	<u>313,927</u>	<u>1,902,602</u>
Total liabilities and fund balances	<u>\$ 1,650,825</u>	<u>\$ 315,341</u>	<u>\$ 1,966,166</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2012

Total fund balances - governmental funds	\$ 1,902,602
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	1,263,478
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	5,608
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(13,780)</u>
Net assets of governmental activities	<u>\$ 3,157,908</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

Year ended September 30, 2012

	General Fund	Economic Development Fund	Total Governmental Funds
Revenues			
Taxes:			
Property	\$ 339,418	\$ -	\$ 339,418
Sales	291,583	145,791	437,374
Franchise	222,632	-	222,632
Building permits	73,955	-	73,955
Fees and court fines	87,041	-	87,041
Charges for services	17,281	-	17,281
Donations	32,694	-	32,694
Interest income	1,352	257	1,609
Miscellaneous	9,884	6,044	15,928
Total revenues	<u>1,075,840</u>	<u>152,092</u>	<u>1,227,932</u>
Expenditures			
Current:			
Administration	522,894	20,759	543,653
Public works	178,264	-	178,264
City streets	95,282	-	95,282
Municipal court	5,555	-	5,555
Parks and recreation	18,215	9,048	27,263
Community center	41,325	-	41,325
Capital outlay	101,780	-	101,780
Total expenditures	<u>963,315</u>	<u>29,807</u>	<u>993,122</u>
Excess (deficiency) of revenues over expenditures	112,525	122,285	234,810
Other financing sources (uses)			
Transfers in	152,312	-	152,312
Transfers out	-	(45,625)	(45,625)
Total other financing sources (uses)	<u>152,312</u>	<u>(45,625)</u>	<u>106,687</u>
Net change in fund balances	264,837	76,660	341,497
Fund balances - beginning	<u>1,323,838</u>	<u>237,267</u>	<u>1,561,105</u>
Fund balances - ending	<u>\$ 1,588,675</u>	<u>\$ 313,927</u>	<u>\$ 1,902,602</u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended September 30, 2012

Net changes in fund balances - total governmental funds	\$ 341,497
Amounts reported for governmental activities in the statement of activities are different because:	
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. This is the amount of capital assets recorded in the current period.	101,780
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(189,451)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	52,474
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(2,279)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	<u>1,691</u>
Change in net assets of governmental activities	<u><u>\$ 305,712</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Net Assets - Proprietary Funds
September 30, 2012

	Business Type Activities - <u>Enterprise Fund</u>
Assets	
Current assets:	
Deposits and investments	1,090,646
Property tax receivable, net of allowance of \$1,392	7,885
Accounts receivable, net of allowance of \$18,138	203,604
Inventory	<u>5,756</u>
Total current assets	1,307,891
Restricted deposits and investments (see Note 6):	
Restricted assets - current	1,232,384
Restricted assets - non current	<u>2,522,953</u>
Total restricted assets	3,755,337
Non-current assets:	
Deferred bond issuance cost	452,629
Capital assets	
Land	347,589
Construction in progress	13,749,043
Buildings and improvements	3,210
Automobiles	124,953
Machinery and equipment	194,962
Water and sewer system	6,687,827
Less accumulated depreciation	<u>(2,690,730)</u>
Net capital assets	<u>18,416,854</u>
Total noncurrent assets	<u>18,869,483</u>
Total Assets	<u><u>23,932,711</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas

Statement of Net Assets - Proprietary Funds

September 30, 2012

	Business Type Activities - Enterprise Fund
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	67,154
Compensated absences	8,410
Current portion of certificates of obligation payable	570,000
Current portion of capital lease payable	32,693
Total current liabilities	678,257
Current liabilities payable from restricted assets:	
Accounts payable	612,942
Retainage payable	334,404
Accrued interest	75,374
Customer deposits	92,204
Total current liabilities payable from restricted assets	1,114,924
Noncurrent liabilities:	
Capital lease payable	39,029
Certificates of obligation payable	14,815,000
Total noncurrent liabilities	14,854,029
Total Liabilities	16,647,210
Net assets	
Invested in capital assets, net of related debt	5,064,079
Restricted for:	
Capital projects	1,651,318
Impact fees	545,684
Unrestricted	24,420
Total Net Assets	\$ 7,285,501

The accompanying notes are an integral part of this statement.

City of Aledo, Texas

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

Year ended September 30, 2012

	Business Type Activities - Enterprise Fund
Operating revenues:	
Water and sewer service	\$ 1,706,293
Charges for services & other revenues	9,090
Total operating revenues	<u>1,715,383</u>
Operating expenses	
Administration	343,256
Supplies and maintenance	225,011
Utilities	126,395
Professional services	112,413
Depreciation	177,070
Total operating expenses	<u>984,145</u>
Operating income (loss)	<u>731,238</u>
Nonoperating revenues (expenses):	
Interest income	2,531
Impact fees	19,241
Property taxes	328,853
Bond issue cost	(14,798)
Interest and fiscal agent fees	(394,057)
Total nonoperating revenues (expense)	<u>(58,230)</u>
Income (loss) before transfers	<u>673,008</u>
Transfers out	<u>(106,687)</u>
Change in net assets	566,321
Net assets - beginning	<u>6,719,180</u>
Net assets - ending	<u><u>\$ 7,285,501</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Statement of Cash Flows - Proprietary Funds
Year ended September 30, 2012

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>
Operating Activities	
Cash received from customers	\$ 1,716,080
Cash payments to suppliers for goods and services	<u>(797,474)</u>
Net cash provided by operating activities	918,606
Noncapital Financing Activities	
Property tax revenues	328,853
Transfers (to) from other funds	<u>(106,187)</u>
Net cash used in noncapital financing activities	222,666
Capital and Related Financing Activities	
Capital expenditures	(7,493,808)
Bond proceeds	4,120,000
Repayment of debt	(404,224)
Bond issuance costs	(52,474)
Impact fees	19,241
Interest paid on debt, net of \$157,800 interest capitalized	<u>(372,937)</u>
Net cash used in capital and related financing activities	(4,184,202)
Investing Activities	
Change in restricted assets	3,148,330
Interest received	<u>2,531</u>
Net cash provided by investing activities	<u>3,150,861</u>
Net increase in cash and cash equivalents	107,931
Cash and cash equivalents - beginning	982,715
Cash and cash equivalents - ending	<u><u>\$ 1,090,646</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 731,238
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	177,068
Change in assets and liabilities:	
Accounts receivable	697
Prepaid	9,340
Accounts payable and accrued liabilities	<u>263</u>
Net cash provided by (used in) operating activities	<u><u>\$ 918,606</u></u>

The accompanying notes are an integral part of this statement.

City of Aledo, Texas
Notes to Basic Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies

The City of Aledo, Texas was incorporated in 1963 and has a population of approximately 2,700. The City operates under a General Law -Type A City and provides the following services: administration, public works and streets, water and sewer, municipal court, parks and recreation, and community center.

The financial statements of the City of Aledo are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other 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.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of service performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Complete financial statements for the individual component units may be obtained at the City's office.

The following entity was found to be a component unit of the City and is included in the combined financial statements:

Blended Component Unit - Aledo Economic Development Corporation - On May 10, 2008, the voters approved the creation of this Corporation for the purpose of projects and improvements that promote economic development within the City. Funding for the Economic Development Corporation is generated

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

from 0.50% sales tax. The Corporation's governing body is substantially the same as the governing body of the City of Aledo. There are seven directors appointed by the City Council. At least three of the directors must not be employees, officers, or members of the City Council. All Board members are appointed by the City Council. The Corporation is authorized to sell bonds or other forms of indebtedness. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City of Aledo, Texas. The Corporation provides all of its services to the City of Aledo, Texas.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes while business type activities rely, to a significant extent, on fees and charges for support.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues. Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Revenues are classified as program revenues and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings and various other revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Expenditures generally are recorded when a fund liability is incurred.

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Economic Development Fund is used to account for the accumulation of financial resources to promote economic development within the City. The fund balance is reserved to signify the amounts are restricted for the development and improvements that will promote economic growth.

The City reports the following major proprietary fund:

Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual and operational services, supplies, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General Fund and the other governmental fund are accounted for using the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on general long-term debt which is recognized when due.

The Water and Sewer Fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

E. Budgets and Budgetary Accounting

The City maintains control over expenditures in the General Fund, the Economic Development Corporation, the Water and Sewer Fund, and the Water and Sewer Debt Service Fund by the establishment of an annual budget. The annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget, as formally adopted by the City Council, establishes the maximum authorization of operating funds to be expended by any fund. Any subsequent amendment thereto must be approved by the Council.

Unused appropriations for all of the budgeted funds lapse at the end of the year. The amended budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

F. Cash Equivalents

For purposes of the statement of cash flows, the City considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

G. Allowance for Uncollectible Accounts

The allowance for doubtful accounts is calculated using prior bad debt experience and takes into account management's estimate of specific uncollectible accounts through review of individual accounts and other information available.

H. Inventory

The enterprise fund inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, sidewalks, curbs and drainage systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of approximately \$157,800 was capitalized during the year ended September 30, 2012.

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

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

Buildings and improvements	15-30 Years
Water and sewer system infrastructure	5-40 Years
Machinery and equipment	3-15 Years
Vehicles	3-15 Years
Other improvements	3-15 Years
Street infrastructure	15 Years

Infrastructure acquired prior to October 1, 2003 has not been recorded. The City has elected not to report major general infrastructure assets retroactively in accordance with GASB Statement No. 34.

J. Nature and Purpose of Designations of Fund Equity

The City has implemented Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) during the year ending September 30, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances effective with its financial statement ended September 30, 2011, and thereafter, as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
2. Spendable Fund Balance
 - a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
 - i. The aggregate fund balance of the Economic Development Corporation is legally restricted for the promotion of economic development within the City.

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

J. Nature and Purpose of Designations of Fund Equity (continued)

- b. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
- c. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.
- d. Unassigned Fund Balance – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be extended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net asset classifications, restricted net assets will be fully utilized first followed by unrestricted as necessary.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Aledo, Texas
Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

M. 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; injuries to employees; and natural disasters. These risks are covered by the City's participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers' compensation insurance. These are self-sustaining risk pools operated on a statewide basis for the benefit of several hundred Texas cities and other public entities. The City pays annual premiums to the TMLIRP, which retains risk of loss up to \$1,000,000 for property and liability insurance and up to \$1,500,000 for workers' compensation and obtains independent coverage for losses in excess of these amounts. The City retains no risk except for deductible amounts. There have been no significant reductions in coverage in the past fiscal year and there have been no settlements exceeding insurance coverage in the current year or the past three fiscal years.

2. Deposits, Securities, and Investments

Chapter 2256 of the Texas Government Code, known as the Public Funds Investment Act (the "Act") authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal, liquidity, diversification, availability of cash to meet the City's obligations and maximization of interest earnings. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by City Council. The Investment Policy includes a list of authorized investments and a maximum allowable maturity of any individual investment. In addition it includes an "Investment Strategy" that specifically addresses each fund's investment options and describes the diversification, management of maturities, pooling of deposits and investments, depository bank relationships, and maximizing investable cash balances.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities, excluding mortgage backed securities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-related securities;
4. Collateralized Certificates of Deposit issued by a state or national bank domiciled in the state or a federal credit union domiciled in the state that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or as further described in the Investment policy;
5. Eligible Local Government Investment Pools;
6. Repurchase agreements, reverse repurchase agreements, bankers' acceptances and commercial paper that are described in more detail in the Investment policy; and
7. Regulated No-Load Money Market Mutual Funds.

All investments held by the City at September 30, 2012 were in the TexSTAR Investment Pool.

City of Aledo, Texas
Notes to Basic Financial Statements

2. Deposits, Securities, and Investments (Continued)

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five member Board of Directors. In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors, which may be extended periodically to a term of two years or less. JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The business and affairs of TexSTAR are managed by the Board in accordance with its bylaws.

The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through daily, weekly, and monthly reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Cash and cash equivalents as of September 30, 2012, consist of the following:

Deposits with financial institutions	\$ 4,795,260
Investments	<u>1,922,898</u>
	<u><u>\$ 6,718,158</u></u>

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 1,922,898	51 days

B. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment.

City of Aledo, Texas
Notes to Basic Financial Statements

2. Deposits, Securities, and Investments (continued)

State statute requires that investments in Local Government Investment Pools be rated AAA or the equivalent by a nationally recognized credit rating agency. As of September 30, 2012, the TexSTAR investment pool was rated AAA by Standard and Poor's.

C. Concentration of Credit Risk

In accordance with the City's Investment policy, the City limits their exposure of concentration of credit risk by restricting investments in the following investment instruments:

	<u>Maximum Percentage of Portfolio</u>
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pools	100%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	10%
SEC-Regulated No-Load Money Market Mutual Funds	50%

D. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized with securities held by the pledging financial institution, or uncollateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At year end, the City's cash and cash equivalents were not exposed to custodial credit risk.

3. Delinquent Property Taxes Receivable and Revenue

Delinquent taxes are prorated between General and the Water and Sewer Funds based on rates adopted for the year of the levy. The Parker County Appraisal District appraises, assesses and collects taxes on behalf of the City.

Property taxes are levied by October 1 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. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the City's fiscal year.

City of Aledo, Texas
Notes to Basic Financial Statements

4. Interfund Activity

Interfund transfers during the fiscal year ended September 30, 2012 were as follows:

	<u>Transfer In</u>
Water and Sewer Fund to General Fund	\$ 106,687
Economic Development Fund to General Fund	<u>45,625</u>
	<u>\$ 152,312</u>

Transfer from Water and Sewer Fund to General Fund was for reimbursement of administrative overhead. Transfer from Economic Development Fund to the General Fund was for reimbursement of administrative overhead and for costs of the community center.

5. Capital Assets

Capital Asset Activities for the year ended September 30, 2012 was as follows:

	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 102,855	\$ -	\$ -	102,855
Construction in progress	<u>-</u>	<u>9,086</u>	<u>-</u>	<u>9,086</u>
Total capital assets not being depreciated	102,855	9,086	-	111,941
Capital assets being depreciated				
Buildings and improvements	322,211	18,504	-	340,715
Street infrastructure	905,124	113,410	-	1,018,534
Vehicles	29,206	16,636	-	45,842
Machinery and equipment	88,886	-	-	88,886
Other improvements	<u>183,102</u>	<u>-</u>	<u>-</u>	<u>183,102</u>
Total capital assets being depreciated	1,528,529	148,550	-	1,677,079
Less accumulated depreciation				
Buildings and improvements	102,901	13,542	-	116,443
Street infrastructure	73,907	144,413	-	218,320
Vehicles	29,206	2,361	-	31,567
Machinery and equipment	60,474	10,259	-	70,733
Other improvements	<u>69,603</u>	<u>18,877</u>	<u>-</u>	<u>88,480</u>
Total accumulated depreciation	<u>336,091</u>	<u>189,452</u>	<u>-</u>	<u>525,543</u>
Total capital assets being depreciated, net	<u>1,192,438</u>	<u>(40,902)</u>	<u>-</u>	<u>1,151,536</u>
Governmental activities capital assets, net	<u>\$ 1,295,293</u>	<u>\$ (31,816)</u>	<u>\$ -</u>	<u>\$ 1,263,477</u>

City of Aledo, Texas
Notes to Basic Financial Statements

5. Capital Assets (continued)

Governmental activities depreciation expense was charged as a direct expense to the following programs:

Governmental activities	
Administration	\$ 31,497
City streets	144,413
Community center	<u>13,542</u>
 Total depreciation expense - Governmental activities	 <u><u>\$ 189,452</u></u>

	Balance September 30, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Business-type activities				
Capital assets not being depreciated				
Land	\$ 344,038	\$ 3,551	\$ -	\$ 347,589
Construction in progress	<u>6,281,127</u>	<u>7,467,914</u>	<u>-</u>	<u>13,749,041</u>
 Total capital assets not being depreciated	 6,625,165	 7,471,465	 -	 14,096,630
 Capital assets being depreciated				
Water system	2,412,012	17,740	-	2,429,752
Sewer system	4,258,075	-	-	4,258,075
Buildings	3,210	-	-	3,210
Vehicles	124,953	-	-	124,953
Machinery and equipment	<u>190,359</u>	<u>4,605</u>	<u>-</u>	<u>194,964</u>
 Total capital assets being depreciated	 6,988,609	 22,345	 -	 7,010,954
 Less accumulated depreciation				
Water system	1,123,989	18,589	-	1,142,578
Sewer system	1,245,218	120,716	-	1,365,934
Buildings	-	135	-	135
Vehicles	63,598	23,036	-	86,634
Machinery and equipment	<u>80,858</u>	<u>14,591</u>	<u>-</u>	<u>95,449</u>
 Total accumulated depreciation	 <u>2,513,663</u>	 <u>177,067</u>	 <u>-</u>	 <u>2,690,730</u>
 Total capital assets being depreciated, net	 <u>4,474,946</u>	 <u>(154,722)</u>	 <u>-</u>	 <u>4,320,224</u>
 Business-type capital assets, net	 <u><u>\$ 11,100,111</u></u>	 <u><u>\$ 7,316,743</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 18,416,854</u></u>

Business-type activities depreciation expense was all charged to the City's water and sewer operations.

City of Aledo, Texas
Notes to Basic Financial Statements

6. Business-Type Activities Restricted Cash and Investments

The Water and Sewer Fund maintains an interest and sinking account/certificate fund, which had a balance of \$206,433 at September 30, 2012. The property tax collections accumulated in this account are restricted to pay the water and sewer fund's bond requirements and are divided ratably between the bond issues.

The Certificates of Obligation require that certificate funds be established for the payment of debt service. The City is in compliance with the reserve requirements of these certificates of obligation as of September 30, 2012.

The Water and Sewer Fund maintains a customer deposit security account for the purposes of segregating liabilities payable to customers for security deposits. The account balance at September 30, 2012 amounted to \$92,204.

The Water and Sewer Fund has \$545,684 in restricted impact fees for the purpose of funding facility expansions and capital improvements. These restricted impact fees consist of \$542,969 in a TexSTAR investment account and \$2,715 in a bank account.

The Water and Sewer Fund also has \$2,911,016 in restricted cash and investment accounts that is to be used for the improvements and construction activities specified in the 2007, 2009, 2010, 2011 and 2012 Certificates of Obligation.

The following is a recap of the restricted cash and investments of the Water and Sewer Fund at September 30, 2012:

	As of September 30, 2012
Total cash and investments restricted for debt service	\$ 206,433
Customer security deposits	92,204
Water and wastewater impact fees	545,684
Future construction total restricted assets	2,911,016
	\$ 3,755,337

City of Aledo, Texas
Notes to Basic Financial Statements

7. Long-Term Debt

The following is a summary of changes in non-current liabilities for the year ended September 30, 2012:

	Beginning of Year	Increase	(Decrease)	End of Year	Due Within One Year
Governmental Activities					
Compensated absences	11,501	11,901	(9,749)	13,780	13,780
Total governmental activities	<u>\$ 11,501</u>	<u>\$ 11,901</u>	<u>\$ (9,749)</u>	<u>\$ 13,780</u>	<u>\$ 13,780</u>
Business-type Activities					
Certificates of Obligation	\$ 11,630,000	\$ 4,120,000	\$ (365,000)	\$ 15,385,000	\$ 570,000
Capital Lease Obligation	110,945	-	(39,224)	71,721	32,693
Compensated Absences	4,751	8,911	(5,252)	8,410	8,410
Total business-type activities	<u>\$ 11,745,696</u>	<u>\$ 4,128,911</u>	<u>\$ (409,476)</u>	<u>\$ 15,465,131</u>	<u>\$ 611,103</u>

The annual requirements to amortize Water and Sewer Fund debt as of September 30, 2012 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	\$ -	\$ -	\$ 570,000	\$ 605,367	\$ 1,175,367
2014	-	-	-	585,000	589,564	1,174,564
2015	-	-	-	520,000	574,800	1,094,800
2016	-	-	-	535,000	560,710	1,095,710
2017	-	-	-	550,000	545,445	1,095,445
2018-2022	-	-	-	2,630,000	2,502,918	5,132,918
2023-2027	-	-	-	3,090,000	2,035,046	5,125,046
2028-2032	-	-	-	2,090,000	1,482,773	3,572,773
2033-2037	-	-	-	2,180,000	1,022,088	3,202,088
2038-2042	-	-	-	2,635,000	411,413	3,046,413
2043-2047	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,385,000</u>	<u>\$ 10,330,123</u>	<u>\$ 25,715,123</u>

The annual requirements to amortize Water and Sewer Fund capital lease obligations as of September 30, 2012 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ -	\$ -	\$ -	\$ 32,693	\$ 2,004	\$ 34,697
2014	-	-	-	25,793	1,024	26,817
2015	-	-	-	13,235	173	13,408
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,721</u>	<u>\$ 3,201</u>	<u>\$ 74,922</u>

City of Aledo, Texas

Notes to Basic Financial Statements

7. Long-Term Debt

A summary of long-term debt as of September 30, 2012 is as follows:

Description	Original Amount	Interest Rate	Payment Terms	Final Year of Maturity	Outstanding Balance as of September 30, 2012	Governmental Activities	Business-type Activities
Certificates of Obligation							
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 1999	\$ 850,000	4.2% - 5.35%	Bond payments due in semi-annual installments on February 15 and August 15	2014	\$ 155,000	\$ -	\$ 155,000
Combination Tax and Waterworks and Sewer System Revenue CO, Series 2002	\$ 720,000	5.55%	Bond payments due in semi-annual installments on February 15 and August 15	2017	\$ 310,000	\$ -	\$ 310,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2007	\$ 5,765,000	2.35% - 3.10%	Bond payments due in semi-annual installments on February 15 and August 15	2028	\$ 4,835,000	\$ -	\$ 4,835,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2009	\$ 675,000	2.30% - 5.55%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 675,000	\$ -	\$ 675,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010A	\$ 2,110,000	1.30% - 4.80%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 2,110,000	\$ -	\$ 2,110,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010B	\$ 360,000	1.94% - 5.59%	Bond payments due in semi-annual installments on February 15 and August 15	2043	\$ 355,000	\$ -	\$ 355,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011A	\$ 3,345,000	1.00% - 5.45%	Bond payments due in semi-annual installments on February 15 and August 15	2030	\$ 3,345,000	\$ -	\$ 3,345,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011B	\$ 1,700,000	2.24% - 5.44%	Bond payments due in semi-annual installments on February 15 and August 15	2030	\$ 1,700,000	\$ -	\$ 1,700,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2012	\$ 1,900,000	4.1% - 4.45%	Bond payments due in semi-annual installments on February 15 and August 15	2031	\$ 1,900,000	\$ -	\$ 1,900,000
					<u>\$ 15,385,000</u>	<u>\$ -</u>	<u>\$ 15,385,000</u>

City of Aledo, Texas
Notes to Basic Financial Statements

7. Long-Term Debt (continued)

A summary of long-term debt as of September 30, 2012 is as follows (continued):

Description	Original Amount	Interest Rate	Payment Terms	Final Year of Maturity	Outstanding Balance as of September 30, 2012	Governmental Activities	Business-type Activities
Capital Leases							
Capital lease payable to Frost National Bank secured by equipment and vehicles	N/A	3.48%	Lease payments due in quarterly payments due in November, February, May, and August	2015	\$ 71,722	\$ -	\$ 71,722
					<u>\$ 15,456,722</u>	<u>\$ -</u>	<u>\$ 15,456,722</u>

8. Accumulated Unpaid Vacation and Sick Leave Benefits

The City's policy allows employees to accumulate up to 20 days of vacation and 30 days of sick leave. Sick leave is paid only upon illness while in the employment of the City.

Therefore, no accrual is reflected in the financial statements for sick pay. Vacation is earned in varying amounts. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for accrued vacation payable as of September 30, 2012 was \$22,190.

9. Pension Plan

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 from TMRS' website at www.TMRS.com.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions.

In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement,

City of Aledo, Texas
Notes to Basic Financial Statements

9. Pension Plan (continued)

the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

	<u>Plan Year 2012</u>
Deposit rate:	7%
Matching ratio (Town to Employee):	2 to 1
A member is vested after	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	0%
Annuity increase (to retirees)	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 (i.e., December 31, 2011 valuation is effective for rates beginning January 2012). The annual pension cost is as follows:

<u>Trend information for the Retirement Plan for the Employees of City of Aledo</u>				
<u>Fiscal Year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Actual Contribution Made</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/2010	30,491	30,491	100%	-
09/30/2011	31,889	31,889	100%	-
09/30/2012	30,561	30,561	100%	-

City of Aledo, Texas
Notes to Basic Financial Statements

9. Pension Plan (continued)

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

Valuation Date	12/31/2009	12/31/2010	12/31/2011
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	22.4 years; closed period	21.9 years; closed period	20.9 years; closed period
Amortization Period for New Gains/Losses	25 years	17 years	16 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return*	7.50%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

Funding Status and Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

City of Aledo, Texas
Notes to Basic Financial Statements

9. Pension Plan (continued)

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/11	\$ 382,145	\$ 462,176	82.70%	\$ 80,031	\$ 486,645	16.40%

Actual 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.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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.

Schedule of Contribution Rates (Retiree-only portion of the rate)			
Plan Year	Annual Required Contribution (Rate)	Annual Contribution Made (Rate)	% of ARC Contributed
2009	0.02%	0.02%	100.00%
2010	0.03%	0.03%	100.00%
2011	0.03%	0.03%	100.00%
2012	0.03%	0.03%	100.00%

City of Aledo, Texas
Notes to Basic Financial Statements

10. Contingencies

There are various lawsuits pending in which the City is involved. In the opinion of legal counsel and City management, the settlement of these lawsuits will not have a material adverse effect on the City's financial position.

11. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through February 20, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Aledo, Texas

Required Supplementary Information
Schedule of Funding Progress for Participation in Texas Municipal Retirement System

September 30, 2012

Texas Municipal Retirement System
Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Covered Payroll	Unfunded Actuarial Accrued Liability as a percentage of Covered Payroll
12/31/09	232,882	351,896	66.20%	119,014	442,175	26.90%
12/31/10	328,910	502,634	65.40%	173,724	458,297	37.90%
12/31/11	382,145	462,176	82.70%	80,031	486,645	16.40%

City of Aledo, Texas

Budgetary Comparison Schedule - General Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Taxes	\$ 568,334	\$ 596,234	\$ 631,001	\$ 34,767
Franchise fees	175,300	217,335	222,632	5,297
Permits	33,530	74,245	73,955	(290)
Fees and court fines	32,000	35,040	87,041	52,001
Charges for services	11,760	16,280	17,281	1,001
Donation	1,000	30,220	32,694	2,474
Grant revenue	-	-	-	-
Interest income	1,500	1,500	1,352	(148)
Miscellaneous	42,025	29,020	9,884	(19,136)
Total revenues	865,449	999,874	1,075,840	75,966
Expenditures				
Current				
Administration	552,185	556,700	522,894	33,806
Public works	201,200	203,310	178,264	25,046
City streets	92,125	121,630	95,282	26,348
Municipal court	11,365	11,695	5,555	6,140
Park and recreation	16,600	20,610	18,215	2,395
Community center	44,375	43,015	41,325	1,690
Capital outlay	100,000	101,760	101,780	(20)
Total expenditures	1,017,850	1,058,720	963,315	95,405
Excess (deficiency) of revenues				
over expenditures	(152,401)	(58,846)	112,525	171,371
Other financing sources (uses):				
Transfers in	152,400	158,140	152,312	5,828
Transfers out	-	-	-	-
Total other financing sources (uses)	152,400	158,140	152,312	5,828
Net change in fund balances	(1)	99,294	264,837	165,543
Fund balance, beginning of year	1,323,838	1,323,838	1,323,838	
Fund balance, end of year	\$ 1,323,837	\$ 1,423,132	\$ 1,588,675	\$ 165,543

City of Aledo, Texas

Budgetary Comparison Schedule - Economic Development Corporation

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues				
Taxes and franchise fees	\$ 128,000	\$ 138,805	\$ 145,791	\$ 6,986
Interest income	500	500	257	(243)
Miscellaneous	10,000	2,395	6,044	3,649
Total revenues	138,500	141,700	152,092	10,392
Expenditures				
Administration	44,050	27,665	20,759	6,906
Park and recreation	12,000	9,000	9,048	(48)
Total expenditures	56,050	36,665	29,807	6,858
Excess (deficiency) of revenues over expenditures	82,450	105,035	122,285	3,534
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(45,625)	(51,370)	(45,625)	(5,745)
Total other financing sources (uses)	(45,625)	(51,370)	(45,625)	(5,745)
Net change in fund balances	36,825	53,665	76,660	(22,995)
Fund balance, beginning of year	237,267	237,267	237,267	-
Fund balance, end of year	\$ 274,092	\$ 290,932	\$ 313,927	\$ 22,995

City of Aledo, Texas

Budgetary Comparison Schedule - Water and Sewer Debt Service Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Other revenue	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Administration	3,205	3,205	45	(3,160)
Total expenditures	3,205	3,205	45	(3,160)
Nonoperating revenue (expenses)				
Interest income	-	285	347	62
Interest expense	(617,280)	(537,125)	(532,100)	5,025
Fiscal agent fees	(3,000)	(1,300)	(1,250)	50
Property taxes	334,665	343,115	328,854	(14,261)
Total nonoperating revenue (expenses)	(285,615)	(195,025)	(204,149)	(9,124)
Excess (deficiency) of revenues over expenditures	(288,820)	(198,230)	(204,194)	(5,964)
Other financing sources (uses)				
Transfers in	653,820	653,820	653,820	-
Transfers out	-	-	-	-
Total other financing sources (uses)	653,820	653,820	653,820	-
Net change in fund balances	365,000	455,590	449,626	(5,964)
Fund balance, beginning of year	(451,785)	(451,785)	(451,785)	-
Fund balance, end of year	<u>\$ (86,785)</u>	<u>\$ 3,805</u>	<u>\$ (2,159)</u>	<u>\$ (5,964)</u>

City of Aledo, Texas

Budgetary Comparison Schedule - Water and Sewer Fund

Year ended September 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues				
Charges for services & other revenues	\$ 1,817,320	\$ 1,882,785	\$ 1,715,383	\$ (167,402)
Total revenues	1,817,320	1,882,785	1,715,383	(167,402)
Expenditures				
Administration	391,135	389,420	343,256	(46,164)
Supplies and maintenance	370,200	286,760	225,011	(61,749)
Utilities	151,200	125,335	126,395	1,060
Professional services	152,040	131,940	112,413	(19,527)
Other operating expenses	-	-	-	-
Depreciation	-	-	177,070	177,070
Total expenditures	1,064,575	933,455	984,145	50,690
Nonoperating revenue (expenses)				
Interest income	3,000	2,535	2,531	(4)
Impact fees	-	15,200	19,241	4,041
Interest and fiscal agent fees	(620,080)	(538,425)	(394,057)	144,368
Bond issue costs	-	-	(14,798)	(14,798)
Property taxes	334,665	343,115	328,853	(14,262)
Gain on sale of asset	-	-	-	-
Total nonoperating revenue (expenses)	(282,415)	(177,575)	(58,230)	119,345
Excess (deficiency) of revenues over expenditures	470,330	771,755	673,008	(98,747)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	138,225	138,225	(106,687)	(244,912)
Total other financing sources (uses)	138,225	138,225	(106,687)	(244,912)
Net change in fund balances	608,555	909,980	566,321	(343,659)
Fund balance, beginning of year	6,719,180	6,719,180	6,719,180	-
Fund balance, end of year	\$ 7,327,735	\$ 7,629,160	\$ 7,285,501	\$ (343,659)

City of Aledo, Texas
Notes to Required Supplementary Information

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedules:

1. No later than the August Council meeting, the City Administrator submits to City Council a proposed operating budget for the General Fund, Economic Development Fund, Water and Sewer Debt Service Fund and Enterprise Fund. The City's operating budget, is consistent with U.S. generally accepted accounting principles (GAAP) for the General and Economic Development funds and includes expenditures and means of financing them. The Water and Sewer Debt Service fund is budgeted separately; however, it is included in the proprietary fund for presentation in the financial statements. The Water and Sewer Capital Projects fund is not budgeted. In addition, depreciation expense is not budgeted, however, it is recorded in the proprietary and business type financial statements.
2. A public hearing is conducted to obtain taxpayer comment.
3. The City Council approves, by ordinance, budget appropriations by September 30. Any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by fund.
4. Unused appropriations of the above annually budgeted funds lapse at the end of each fiscal year.
5. The City Council may authorize additional appropriations during the year. The City Council amended the budget during the year. Amendments to the budget were insignificant.

This page intentionally left blank

Other Information Section

This page intentionally left blank



**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

To the City Council
City of Aledo, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Aledo, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of Aledo, Texas's financial statements and have issued our report thereon dated February 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the City of Aledo, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Aledo, Texas' internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Aledo, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Aledo's financial statements that is more than inconsequential will not be prevented or detected by the City of Aledo, Texas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Aledo's internal controls. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



VAIL & KNAUTH, LLP

CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Aledo, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vail + Knauth, LLP

Dallas, Texas
February 20, 2013



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Aledo, Texas

We have audited the compliance of City of Aledo with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A -133 Compliance Supplement* (OMB Circular A-133) that could have a direct and material effect on each of the City of Aledo's major federal programs for the year ended September 30, 2012. The City of Aledo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Aledo's management. Our responsibility is to express an opinion on the City of Aledo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the OMB Circular A-133, *audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Aledo's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Aledo's compliance with those requirements.

In our opinion, the City of Aledo complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

The management of the City of Aledo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Aledo's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Aledo's internal control over compliance.



VAIL & KNAUTH, LLP

CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Aledo's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Aledo's internal controls.

A material weakness is a significant deficiency, or combination significant deficiencies, that result in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Aledo's internal controls.

Our consideration of internal control was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Aledo, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Vail + Knauth, LLP

Dallas, Texas

February 20, 2013

City of Aledo, Texas

Required Supplementary Information
Schedule of Expenditures of Federal Awards

September 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Environmental Protection Agency Clean Water State Revolving Fund	66.458	\$ 4,373,656
Environmental Protection Agency Drinking Water State Revolving Fund	66.468	<u>2,514,457</u>
Total Federal Expenditures		<u>\$ 6,888,113</u>

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Aledo, Texas and is presented on the accrual basis of accounting. Information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Purpose of Grant Funds

The Clean Water State Revolving Grant was used to fund the City's Tax and Water and Sewer System Certificates of Obligation, Series 2012.

In fiscal year 2012, the City expended \$4,373,656 of funding provided through the Texas Water Development Board to finance the costs of improvements and extensions to the City's Sewer System under the EPA Clean Water State Revolving Fund program.

In fiscal year 2012, the City expended \$2,514,457 of funding provided through the Texas Water Development Board to finance the costs of improvements to the City's Waterworks System under the EPA Drinking Water State Revolving Fund.

Section I – Summary of Auditor’s Results

Financial Statements

Unqualified

Type of auditor's reports issued:

Internal control over financial reporting:

- Significant deficiencies identified? NO
- Significant deficiencies identified that are considered to be a material weakness? NO

Noncompliance material to the financial statements noted? NO

Federal Awards

Internal control over major federal programs:

- Significant deficiencies identified? NO
- Significant deficiencies identified that are considered to be a material weakness? NO

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the OMB Circular A-133? NO

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Environmental Protection Agency Clean Water State Revolving Fund

Dollar threshold to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee in the context of OMB Circular A-133? NO

Section II – Financial Statement Findings

No findings to be reported.

Section III –Federal Award Findings and Questioned Costs

No findings to be reported.

Prior Year Financial Statement, Federal Award Findings and Questioned Costs

Not applicable.

Corrective Action Plan

Not applicable.