

**CITY OF YOAKUM, TEXAS**

*ANNUAL FINANCIAL REPORT*

*For the year ended September 30, 2012*

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## **FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of City Council  
City of Yoakum, Texas

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2013, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and historical pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Honorable Mayor and Members  
of the City Council

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual major and nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual major and nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Harrison, Waldrop & Ullrich, LLP*

May 10, 2013

The discussion and analysis of the City of Yoakum's (the "City") financial performance provides an overall review of the City's financial activities for the year ended September 30, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2012, by \$24,614,372. Of this amount, \$11,734,048 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2012, the City's governmental funds reported combined ending fund balances of \$4,781,296, an increase of \$468,343 in comparison with the prior year.
- At September 30, 2012, unassigned fund balance for the General Fund was \$2,091,025 or 35.90% of total General Fund expenditures.
- The total cost of all City activities was \$13,879,069 for the fiscal year which is an increase of \$514,096 from the prior year.
- During the year, the City's general revenues exceeded net expenses of all City activities by \$1,035,362. This represents a 4.39% increase in net assets from the previous fiscal year as a result from operations.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Organization and Flow of Financial Section Information**

<p><b>Independent Auditors' Report</b>  <i>Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.</i></p>	
<p><b>Management's Discussion and Analysis</b>  <i>This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.</i>                  Page 3 to 9</p>	
<p><b>Government-wide Financial Statements</b>  <i>Provides information on governmental and business-type activities of the primary government.</i>                  Pages 10 to 12</p>	<p><b>Fund Financial Statements</b>  <i>Provides information on the financial position of specific funds of the primary governments.</i>                  Pages 13 to 19</p>
<p><b>Notes to Financial Statements</b>  <i>Provides a summary of significant accounting policies and related disclosures.</i>                  Pages 20 to 39</p>	

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Government-wide Financial Statements**

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

#### ***Statement of Net Assets***

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of net assets can be found on page 10.

#### ***Statement of Activities***

The statement of activities presents information showing how the government's net assets changed during fiscal year 2012. 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 only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave). The statement of activities can be found on pages 11 through 12.

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other 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 general government, public safety, public works, and cultural and recreation. The business-type activities of the City include utilities. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit of Yoakum Economic Development Corporation. This component unit is not included as part of the primary government.

### **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. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Fund Financial Statements - (Continued)**

#### ***Governmental Funds - (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 financial decisions. Both the governmental fund balance sheet (page 13) and the governmental fund statement of revenues, expenditures, and changes in fund balances (page 15) provide reconciliation to facilitate this comparison between governmental funds and governmental activities (pages 14 and 16, respectively).

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Project Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

#### ***Proprietary Funds***

The City maintains only one type of proprietary funds. The enterprise fund, or the Utility Fund, is used to report the same functions presented as business-type activities in the government-wide financial statements. The City's Utility Fund accounts for the fiscal activities relating to electric and water/wastewater utilities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements follow the governmental fund financial statements.

#### **Notes to 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 39 of this report.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund. Required supplementary information can be found on pages 40 through 43 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 44 through 59 of this report.

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## **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 \$24,614,372 at the close of the fiscal year ended September 30, 2012.

At the end of fiscal year 2012, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

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### **City of Yoakum, Texas**

#### **Net Assets**

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	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,400,949	\$ 4,761,632	\$ 10,235,344	\$ 9,920,916	\$ 15,636,293	\$ 14,682,548
Capital assets (net)	6,036,084	6,274,303	12,076,653	12,270,874	18,112,737	18,545,177
<b>Total assets</b>	<b>11,437,033</b>	<b>11,035,935</b>	<b>22,311,997</b>	<b>22,191,790</b>	<b>33,749,030</b>	<b>33,227,725</b>
Current and other liabilities	500,765	340,285	1,300,791	1,548,579	1,801,556	1,888,864
Noncurrent liabilities	145,504	130,225	7,187,598	7,629,626	7,333,102	7,759,851
<b>Total liabilities</b>	<b>646,269</b>	<b>470,510</b>	<b>8,488,389</b>	<b>9,178,205</b>	<b>9,134,658</b>	<b>9,648,715</b>
Net assets:						
Invested in capital assets, net of related debt	6,036,084	6,274,303	6,844,240	4,064,576	12,880,324	10,338,879
Unrestricted, as restated	4,754,680	4,291,122	6,979,368	8,949,009	11,734,048	13,240,131
<b>Total net assets</b>	<b>\$ 10,790,764</b>	<b>\$ 10,565,425</b>	<b>\$ 13,823,608</b>	<b>\$ 13,013,585</b>	<b>\$ 24,614,372</b>	<b>\$ 23,579,010</b>

The largest portion of the City's net assets (52.33% or 12,880,324) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

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**City of Yoakum, Texas****Changes in Net Assets**

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	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 2,652,412	\$ 2,190,161	\$ 10,777,573	\$ 10,475,573	\$ 13,429,985	\$ 12,665,734
Operating grants and contributions	34,000	150,376	-	-	34,000	150,376
Capital grants and contributions	-	130,275	-	37,205	-	167,480
General revenues:						
Property taxes	174,096	164,904	-	-	174,096	164,904
Other taxes	1,073,246	922,405	-	-	1,073,246	922,405
Other	158,233	179,394	44,871	51,880	203,104	231,274
<b>Total revenues</b>	<u>4,091,987</u>	<u>3,737,515</u>	<u>10,822,444</u>	<u>10,564,658</u>	<u>14,914,431</u>	<u>14,302,173</u>
<b>EXPENSES</b>						
General government	899,172	902,228	-	-	899,172	902,228
Public safety	2,097,704	2,014,956	-	-	2,097,704	2,014,956
Public works	2,449,719	2,162,106	-	-	2,449,719	2,162,106
Cultural and recreation	700,102	637,007	-	-	700,102	637,007
Utilities	-	-	7,732,372	7,648,676	7,732,372	7,648,676
<b>Total expenses</b>	<u>6,146,697</u>	<u>5,716,297</u>	<u>7,732,372</u>	<u>7,648,676</u>	<u>13,879,069</u>	<u>13,364,973</u>
Change in net assets before transfers	(2,054,710)	(1,978,782)	3,090,072	2,915,982	1,035,362	937,200
Transfers	2,280,049	2,078,992	(2,280,049)	(2,078,992)	-	-
Change in net assets	225,339	100,210	810,023	836,990	1,035,362	937,200
Net assets - beginning, as restated	<u>10,565,425</u>	<u>10,465,215</u>	<u>13,013,585</u>	<u>12,176,595</u>	<u>23,579,010</u>	<u>22,641,810</u>
Net assets - ending	<u>\$ 10,790,764</u>	<u>\$ 10,565,425</u>	<u>\$ 13,823,608</u>	<u>\$ 13,013,585</u>	<u>\$ 24,614,372</u>	<u>\$ 23,579,010</u>

Governmental activities increased the City's net assets by \$225,339, thereby the business-type activities increased by \$810,023. Inter-fund transfers were approximately \$200,000 higher than the prior year.

The City's total revenues increased from the prior year. Charges for services increased due to higher utility sales. The capital grant revenues decreased due to no grants that were received during the year. The City's governmental activities expenses increased from prior year by \$430,400, primarily in public works and public safety.

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## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of 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 fiscal year 2012, the City's governmental funds reported combined ending fund balances of \$4,781,296, an increase of \$468,343 in comparison with the prior year. Substantially the entire balance is available for spending, subject to regulatory, statutory, and budgetary restrictions.

The General Fund is the chief operating fund of the City. At the end of fiscal year 2012, unassigned fund balance of the General Fund was \$2,091,025. The unassigned fund balance represents 35.90% of the total General Fund expenditures.

The fund balance of the City's General Fund increased by \$309,712 during the current fiscal year. Key factors in this increase are as follows:

- Net transfers in fiscal year 2012 were \$77,358 higher than that reported in the prior year.
- Tax revenues were \$144,174 higher than the prior year.
- Charges for services were \$504,609 higher than the prior year.

The Capital Project Fund had a \$28,932 increase in fund balance in comparison with the prior year. This is due to an increase of \$36,715 in net transfers compared to the prior year.

### **Proprietary Funds**

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

Factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the General Fund's original budget and final amended budget includes an increase in anticipated revenues of \$533,230. The increase in revenue was due to an increase in the revenues realized from various solid waste activities and new sources of revenue that resulted from various industrial users of the City's service.

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## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$17,906,430 (net of accumulated depreciation). This investment in capital assets includes land, building, office equipment, machinery and equipment, infrastructure, water works system, sewer system, electric system, and construction in progress. The net decrease in the City's investment in capital assets for the current fiscal year was 2.28% (a 3.80% decrease for governmental activities and 1.49% decrease for business-type activities). Major capital asset events during the current fiscal year included the following:

- Improvements to the waste water utility system.
- Various vehicles and equipment.

Additional information on the City's capital assets can be found in Note 5 of this report.

### **Long-term Debt**

At the end of fiscal year 2012, the City had total bonded debt outstanding of \$7,551,922. All of the debt is related to utility system improvements.

The City had outstanding \$245,755 in compensated absences, which was an increase of approximately 11.10% from the prior year.

Additional information on the City's debt can be found in Note 10 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Inflationary trends in the region are consistent with national and state indices.
- The FY 2013 budget anticipates a slight increase over FY 2012 which was a record year.
- The overall ad valorem tx rate decreased to \$0.09087 from \$0.09278. The tax rate for the debt service decreased to \$0.05848 from \$0.06071. The M & O tax rate increased from \$0.03207 to \$0.03239. Property tax revenues should increase slightly due to higher valuations of taxable property.

### **Requests for Information**

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Director in the Yoakum City Hall or at P.O. Box 738, Yoakum, Texas 77995.

## **Basic Financial Statements**

**CITY OF YOAKUM, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Yoakum Economic Development Corporation
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,862,312	\$ 5,519,825	\$ 10,382,137	\$ 1,356,645
Receivables (net)	385,452	1,892,783	2,278,235	48,460
Due from other governments	147,381	-	147,381	-
Due from primary government	-	-	-	500
Inventory	5,804	296,920	302,724	-
Restricted assets				
Cash and cash equivalents	-	2,525,816	2,525,816	-
<b>Total current assets</b>	<b>5,400,949</b>	<b>10,235,344</b>	<b>15,636,293</b>	<b>1,405,605</b>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	361,498	5,363,383	5,724,881	63,653
Buildings, infrastructure, and equipment (net)	5,674,586	6,506,963	12,181,549	-
Bond issue costs (net)	-	206,307	206,307	-
<b>Total noncurrent assets</b>	<b>6,036,084</b>	<b>12,076,653</b>	<b>18,112,737</b>	<b>63,653</b>
<b>Total assets</b>	<b>11,437,033</b>	<b>22,311,997</b>	<b>33,749,030</b>	<b>1,469,258</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	336,771	546,040	882,811	-
Accrued expenditures/expenses	131,253	74,966	206,219	-
Deposits	7,889	230,219	238,108	-
Due to other governments	8,185	-	8,185	-
Due to component unit	500	-	500	-
Accrued compensated absences	16,167	8,408	24,575	-
Accrued interest payable	-	1,158	1,158	-
Current portion of long-term obligations	-	440,000	440,000	-
<b>Total current liabilities</b>	<b>500,765</b>	<b>1,300,791</b>	<b>1,801,556</b>	<b>-</b>
Noncurrent liabilities				
Accrued compensated absences	145,504	75,676	221,180	-
Noncurrent portion of long-term obligations (net of deferred amounts)	-	7,111,922	7,111,922	-
<b>Total noncurrent liabilities</b>	<b>145,504</b>	<b>7,187,598</b>	<b>7,333,102</b>	<b>-</b>
<b>Total liabilities</b>	<b>646,269</b>	<b>8,488,389</b>	<b>9,134,658</b>	<b>-</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	6,036,084	6,844,240	12,880,324	63,653
Unrestricted net assets	4,754,680	6,979,368	11,734,048	1,405,605
<b>Total net assets</b>	<b>\$ 10,790,764</b>	<b>\$ 13,823,608</b>	<b>\$ 24,614,372</b>	<b>\$ 1,469,258</b>

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2012

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 899,172	\$ 27,338	\$ 34,000	\$ -
Public safety	2,097,704	291,770	-	-
Public works	2,449,719	2,060,340	-	-
Cultural and recreation	700,102	272,964	-	-
Total governmental activities	<u>6,146,697</u>	<u>2,652,412</u>	<u>34,000</u>	<u>-</u>
Business-type activities				
Utilities	<u>7,732,372</u>	<u>10,777,573</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>7,732,372</u>	<u>10,777,573</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 13,879,069</u>	<u>\$ 13,429,985</u>	<u>\$ 34,000</u>	<u>\$ -</u>
<b>Component Unit</b>				
Yoakum Economic Development Corporation	<u>\$ 127,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:  
Taxes:  
    Property taxes, levied for general purposes  
    Property taxes, levied for debt service  
    Sales taxes  
    Franchise taxes  
    Other taxes  
Investment earnings  
Miscellaneous  
Transfers  
Total general revenues and transfers  
Change in net assets  
Net assets - beginning, as restated  
Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			Component
Primary Government			Unit
Governmental Activities	Business- type Activities	Total	Yoakum Economic Development Corporation
\$ (837,834)	\$ -	\$ (837,834)	\$ -
(1,805,934)	-	(1,805,934)	-
(389,379)	-	(389,379)	-
(427,138)	-	(427,138)	-
<u>(3,460,285)</u>	<u>-</u>	<u>(3,460,285)</u>	<u>-</u>
-	3,045,201	3,045,201	-
-	3,045,201	3,045,201	-
<u>(3,460,285)</u>	<u>3,045,201</u>	<u>(415,084)</u>	<u>-</u>
-	-	-	(127,197)
60,496	-	60,496	-
113,600	-	113,600	-
879,663	-	879,663	293,219
127,000	-	127,000	-
66,583	-	66,583	-
13,185	44,871	58,056	10,983
145,048	-	145,048	-
2,280,049	(2,280,049)	-	-
<u>3,685,624</u>	<u>(2,235,178)</u>	<u>1,450,446</u>	<u>304,202</u>
225,339	810,023	1,035,362	177,005
<u>10,565,425</u>	<u>13,013,585</u>	<u>23,579,010</u>	<u>1,292,253</u>
<u>\$ 10,790,764</u>	<u>\$ 13,823,608</u>	<u>\$ 24,614,372</u>	<u>\$ 1,469,258</u>

**CITY OF YOAKUM, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2012

	<u>General</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,303,897	\$ 2,286,817	\$ 271,598	\$ 4,862,312
Receivables (net)	360,254	-	25,198	385,452
Due from other funds	-	-	116,776	116,776
Due from other governments	147,381	-	-	147,381
Inventory	5,804	-	-	5,804
<b>Total assets</b>	<u>\$ 2,817,336</u>	<u>\$ 2,286,817</u>	<u>\$ 413,572</u>	<u>\$ 5,517,725</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 329,938	\$ -	\$ 6,833	\$ 336,771
Accrued expenditures	131,253	-	-	131,253
Deposits	7,889	-	-	7,889
Due to other funds	116,776	-	-	116,776
Due to component unit	500	-	-	500
Due to other governments	8,185	-	-	8,185
Deferred revenue	125,966	-	9,089	135,055
<b>Total liabilities</b>	<u>720,507</u>	<u>-</u>	<u>15,922</u>	<u>736,429</u>
<b>Fund balance</b>				
Nonspendable				
Inventory	5,804	-	-	5,804
Restricted	-	2,286,817	397,650	2,684,467
Committed	1,079,183	-	-	1,079,183
Unassigned	1,011,842	-	-	1,011,842
<b>Total fund balances</b>	<u>2,096,829</u>	<u>2,286,817</u>	<u>397,650</u>	<u>4,781,296</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,817,336</u>	<u>\$ 2,286,817</u>	<u>\$ 413,572</u>	<u>\$ 5,517,725</u>

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

September 30, 2012

---

**Total governmental fund balances** \$ 4,781,296

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 13,487,289	
Accumulated depreciation of governmental capital assets	<u>7,451,205</u>	\$ 6,036,084

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

135,055

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated absences	<u>(161,671)</u>
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**Net assets of governmental activities** **\$ 10,790,764**

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

For the year ended September 30, 2012

	<u>General</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,069,583	\$ -	\$ 179,910	\$ 1,249,493
Licenses and permits	42,255	-	-	42,255
Intergovernmental	34,000	-	-	34,000
Charges for services	2,482,063	-	12,898	2,494,961
Fines and forfeitures	85,317	-	16,592	101,909
Investment income	13,122	-	63	13,185
Miscellaneous	<u>103,692</u>	<u>35,000</u>	<u>5,300</u>	<u>143,992</u>
<b>Total revenues</b>	<u>3,830,032</u>	<u>35,000</u>	<u>214,763</u>	<u>4,079,795</u>
<b>EXPENDITURES</b>				
Current				
General government	810,181	-	39,864	850,045
Public safety	2,020,782	-	22,354	2,043,136
Public works	2,184,245	-	-	2,184,245
Cultural and recreation	809,245	-	-	809,245
Debt service interest	<u>-</u>	<u>-</u>	<u>4,830</u>	<u>4,830</u>
<b>Total expenditures</b>	<u>5,824,453</u>	<u>-</u>	<u>67,048</u>	<u>5,891,501</u>
Excess (deficiency) of revenues over expenditures	(1,994,421)	35,000	147,715	(1,811,706)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,419,365	316,132	-	2,735,497
Transfers out	<u>(115,232)</u>	<u>(322,200)</u>	<u>(18,016)</u>	<u>(455,448)</u>
<b>Total other financing sources (uses)</b>	<u>2,304,133</u>	<u>(6,068)</u>	<u>(18,016)</u>	<u>2,280,049</u>
Net change in fund balances	309,712	28,932	129,699	468,343
Fund balances at beginning of year, as restated	<u>1,787,117</u>	<u>2,257,885</u>	<u>267,951</u>	<u>4,312,953</u>
<b>Fund balances at end of year</b>	<u>\$ 2,096,829</u>	<u>\$ 2,286,817</u>	<u>\$ 397,650</u>	<u>\$ 4,781,296</u>

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS****RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
*For the year ended September 30, 2012*

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<b>Total net change in fund balances - governmental funds</b>	<b>\$ 468,343</b>
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*Amounts reported for governmental activities in the statement of activities are different because:*

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 299,851	
Depreciation expense	<u>(538,070)</u>	(238,219)

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year end and are not reported as revenue in the governmental funds.

Property taxes	(1,095)	
Other revenues	<u>13,287</u>	12,192

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

Increase in compensated absences		<u>(16,977)</u>
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<b>Change in net assets of governmental activities</b>	<b>\$ <u>225,339</u></b>
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The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2012

	Business-type Activities
	<u>Utility Fund</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 5,519,825
Receivables (net)	1,892,783
Inventory	296,920
Restricted assets	
Cash and cash equivalents	<u>2,525,816</u>
Total current assets	<u>10,235,344</u>
Noncurrent assets	
Capital assets	
Land and other assets not being depreciated	5,363,383
Buildings, infrastructure, and equipment (net)	6,506,963
Bond issue costs (net)	<u>206,307</u>
Total noncurrent assets	<u>12,076,653</u>
<b>Total assets</b>	<u>22,311,997</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	546,040
Accrued expenses	74,966
Deposits	230,219
Accrued compensated absences	8,408
Accrued interest payable	1,158
Current portion of bonds and certificates payable	<u>440,000</u>
Total current liabilities	<u>1,300,791</u>
Noncurrent liabilities	
Accrued compensated absences	75,676
Bonds and certificates payable (net of deferred amounts)	<u>7,111,922</u>
Total noncurrent liabilities	<u>7,187,598</u>
<b>Total liabilities</b>	<u>8,488,389</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,844,240
Unrestricted net assets	<u>6,979,368</u>
<b>Total net assets</b>	<u>\$ 13,823,608</u>

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS****PROPRIETARY FUNDS**

For the year ended September 30, 2012

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	<u>Business-type Activities</u>
	<u>Utility Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 10,653,356
Miscellaneous	124,217
<b>Total operating revenues</b>	<u>10,777,573</u>
<b>OPERATING EXPENSES</b>	
Personnel	1,306,291
Supplies	133,741
Cost of power	5,360,355
Services	283,647
Maintenance	244,622
Other	13,290
Depreciation and amortization	378,988
<b>Total operating expenses</b>	<u>7,720,934</u>
Operating income (loss) before nonoperating revenues (expenses) contributions and transfers	3,056,639
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	44,871
Interest and fiscal charges	<u>(11,438)</u>
Net nonoperating revenues (expenses)	<u>33,433</u>
Income before contributions and transfers	3,090,072
Transfers	
Transfers in	62,000
Transfers out	<u>(2,342,049)</u>
Total transfers	<u>(2,280,049)</u>
Change in net assets	810,023
Total net assets at beginning of year	<u>13,013,585</u>
<b>Total net assets at end of year</b>	<u>\$ 13,823,608</u>

The accompanying notes are an integral part of this statement.

**CITY OF YOAKUM, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2012

	Business-type Activities
	Utility Fund
	<u>Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 10,494,705
Cash payments to suppliers for goods and services	(6,286,977)
Cash payments to employees for services	<u>(1,298,331)</u>
<b>Net cash provided by operating activities</b>	<u>2,909,397</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash received (paid) on customer meter deposits	22,545
Transfers (from) to other funds	<u>(2,280,049)</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(2,257,504)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(184,007)
Principal paid on bond maturities	(425,000)
Interest and finance charges paid on bonds	<u>(23,960)</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(632,967)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>44,871</u>
<b>Net cash provided (used) by investing activities</b>	<u>44,871</u>
Net increase (decrease) in cash and cash equivalents	63,797
Cash and cash equivalents at beginning of year	<u>7,981,844</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 8,045,641</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 3,056,639
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	373,745
Amortization	5,243
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(282,868)
(Increase) decrease in inventory	32,237
Increase (decrease) in accounts payable	(283,559)
Increase (decrease) in accrued expenses	381
Increase (decrease) in accrued compensated absences	<u>7,579</u>
<b>Net cash provided by operating activities</b>	<u>\$ 2,909,397</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>	
Cash and cash equivalents - Unrestricted	\$ 5,519,825
Cash and cash equivalents - Restricted	<u>2,525,816</u>
<b>Total cash and cash equivalents</b>	<u>\$ 8,045,641</u>

The accompanying notes are an integral part of this statement.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Yoakum, Texas (the "City"), a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas, adopted its first charter in 1915. The City operates under a council-manager form of government and, as authorized by its charter, provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, parks and recreation, public improvements, inspections, and general administrative services.

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. The component unit discussed in this note is included in the City's financial statements because of the significance of its financial relationship with the City.

**B. Component Unit**

The component unit is reported in a separate column to emphasize that it is legally separate from the City. The component unit column is made of the following:

The Yoakum Economic Development Corporation (the "Corporation") - was created for the purpose of benefiting and accomplishing public purposes of the City by promoting, encouraging, and enhancing the creation of jobs in the City. This is to be achieved through assistance in the retention of existing businesses and industries and the attraction of new businesses and industries and aid in their development and growth. The Corporation was incorporated on June 24, 1999, under the Texas Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Ann.CIV.ST. Section 4B, as amended, and qualifies as a tax-exempt organization under Code Section 50(c)(4) of the Internal Revenue Code. All powers of the Corporation are vested in the Board of Directors consisting of seven persons appointed by the City Council. This entity operates as a governmental fund type.

The component unit is discretely presented in the financial statements. Additional financial information for the Yoakum Economic Development Corporation may be obtained from Yoakum City Hall, P. O. Box 738, Yoakum, Texas 77995.

**C. Government-wide and Fund Financial Statements**

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

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Government-wide and Fund Financial Statements - (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment 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 among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Project Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. The Capital Project Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Utility Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and water and electric distribution systems.

Additionally, the City reports the following funds:

The Special Revenue Funds account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The Debt Service Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest. The Debt Service Fund makes annual transfers to the Utility Fund to provide for payment on the Series 2011 General Obligation Refunding Bonds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as 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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, 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, then unrestricted resources as they are needed.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

E. Budgets and Budgetary Accounting

Procedures in establishing budgetary data reflected in the financial statements are as follows:

1. At least 30 days prior to the beginning of the fiscal year, the City Manager submits a proposed operating budget to the City Council for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. On or before the last day of the fiscal year currently ending, the budget is legally adopted by the City Council.
3. Any revisions that alter the total expenditures of any fund must be approved by the City Council. Although costs are monitored on a departmental basis, the level of control (level at which expenditures may not exceed budget) is the fund.
4. Formal budgetary integration is employed as a management control device by expenditure category during the year for the General Fund. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternately achieved through general obligation bond indenture provisions. Formal budgetary integration is not employed for the Special Revenue Funds and the Capital Projects Fund because effective budgetary control is provided by the small number of projects in these funds.
5. The budget for the General Fund is adopted on a basis specified by the charter of the City. This basis is consistent with the modified accrual basis of accounting. The budgetary comparison presented in this report is on the budgetary basis, which is in conformance with generally accepted accounting principles (GAAP).

A summary budget is adopted for the Utility Fund on a non-GAAP budgetary basis. Actual revenues and expenses compared to budget and a reconciliation to GAAP is presented.

6. Unencumbered budget appropriations lapse at year-end and do not carry forward to future periods.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end lapse and are appropriately provided for in the subsequent year's budget. There are no outstanding encumbrances at September 30, 2012.

G. Deposits and Investments

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

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of 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 their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

G. Deposits and Investments - (Continued)

The Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the Council's investment policies.

Investments for the City, as well as the component unit, are recorded at amortized cost, which as of September 30, 2012, approximates fair value. Because the fair value of the City's investments did not materially differ from cost, no adjustments were made to the City's reporting amounts. See Note 3 for further discussion.

H. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

I. Inventories

Inventories of materials and supplies held by the Enterprise Fund are valued at the lower of cost (first-in, first-out) or market. Estimated cost is used when actual cost figures are not available. Inventories are not maintained in the General Fund since materials and supplies are charged to related expenditures accounts when purchased. As these amounts are not material to the financial statements, the exclusion of inventories does not materially affect the financial position or result of operations of the General Fund.

J. Restricted Assets

The restricted cash and cash equivalents in the City's Utility Fund consists of funds set aside for long-term debt and construction of utility services.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest expense (interest earned minus expense) incurred during the construction phase of capital assets of business-type activities is capitalized as part of the value of the assets constructed.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

K. Capital Assets - (Continued)

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water works system	20-40
Sewer system	20-40
Electric system	20-40
Infrastructure	20
Machinery and equipment	5-15

L. Compensated Absences

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of the number of days an employee may earn during a two-year period. Sick leave benefits are earned by all full-time employees at a rate of twelve days per year and may be accumulated without limit. In the event of termination, an employee is reimbursed for all accumulated vacation days up to the maximum accrued time. Retired employees are also reimbursed for 25% of accrued sick leave in excess of 60 days up to a maximum of 30 days accrued time. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

M. Long-Term Obligations

In the government-wide financial statements, and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Losses on refunding are capitalized and amortized over the shorter of the life of the new issuance or the life on existing debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and deferred losses on refunding as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution. Once the resolution is passed, the commitment remains in place until another resolution is passed to remove or revise the commitment.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

N. Fund Equity - (Continued)

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Manager or his/her designee to assign fund balance. Unlike commitments, assignments generally only exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

O. Minimum Fund Balance Policy

The Council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) in the General Fund. The target level is set at three months of the General Fund's total operating expenditures of the most recently audited fiscal year. If it is determined that the City is below this minimum established fund balance level, the Council will be informed of this condition and take necessary budgetary steps to bring the fund balance level into compliance with this policy through budgetary actions.

P. Stabilization Arrangement

On September 11, 2012, the Council adopted a resolution to establish and maintain a stabilization reserve in the General Fund. The reserve is to be maintained to provide for emergencies, contingencies, revenue shortfalls, or budgetary imbalances that may occur from time to time. The reserve amount should not be less than 20 percent or no more than 30 percent of the General Fund's total operating expenditures of the most recently audited fiscal year. The stabilization reserve is reported as committed fund balance in the General Fund at fiscal year end.

Q. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Excess Expenditures Over Appropriations

General Fund expenditures in a number of different departments exceeded the amount appropriated during the current fiscal year. These variances are detailed below.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Parks and recreation	\$ 588,990	\$ 677,870	\$ (88,880)

These over expenditures were funded by available fund balance in the General Fund.

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**NOTE 3: DEPOSITS AND INVESTMENTS**

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Money Market Mutual Funds	\$ 1,892,510	N/A

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase. However, the City may purchase investments with a longer maturity when it is determined that it can be held to maturity.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of September 30, 2012, and for the year then ended, the City was not exposed to credit risk.

Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

It is managements' recent understanding that the Yoakum Economic Development Corporation, a discretely presented component unit, and any other 4A and 4B economic development entity is not considered a "political subdivision" as defined by Section 330.15 of the FDIC's regulation. Therefore, the Corporation's bank deposits may not be insured above \$250,000 even though they are secured by the pledged collateral agreement of the City.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2012, and for the year then ended, the City was not exposed to any custodial credit risk.

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**NOTE 4: RECEIVABLES**

Receivables at September 30, 2012, consist of the following:

	<u>General</u>	<u>Utility</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ 202,825	\$ 1,887,405	\$ -	\$ 2,090,230
Ad valorem taxes	7,860	-	10,098	17,958
Ambulance	105,410	-	-	105,410
Fines	13,482	-	-	13,482
Franchise taxes	31,463	-	-	31,463
Other	-	5,378	16,109	21,487
Total gross receivables	361,040	1,892,783	26,207	2,280,030
Less: Allowances	786	-	1,009	1,795
Total net receivables	<u>\$ 360,254</u>	<u>\$ 1,892,783</u>	<u>\$ 25,198</u>	<u>\$ 2,278,235</u>

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 7,074	\$ -	\$ 7,074
Ambulance	105,410	-	105,410
Fines	13,482	-	13,482
Debt Service Fund			
Ad valorem taxes	9,089	-	9,089
Total	<u>\$ 135,055</u>	<u>\$ -</u>	<u>\$ 135,055</u>

The City's property taxes are levied annually on October 1<sup>st</sup> on the basis of the Dewitt County Appraisal District's (the Appraisal District), assessed values as of January 1<sup>st</sup> of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Dewitt County Tax Assessor Collector and are due and payable on January 31<sup>st</sup>. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on February 1<sup>st</sup> of the subsequent calendar year.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.08909 per \$100 of assessed valuation which were prorated between operations and debt service in the amounts of \$0.03207 and \$0.06071, respectively. The resulting adjusted total tax levy was \$169,036 on the total adjusted taxable valuation of \$182,190,127 for the 2011 tax year.

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**NOTE 5: CAPITAL ASSETS**

The City's capital asset activity for the year ended September 30, 2012, was as follows:

**Primary Government:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 361,498	\$ -	\$ -	\$ 361,498
Total capital assets, not being depreciated	<u>361,498</u>	<u>-</u>	<u>-</u>	<u>361,498</u>
Capital assets, being depreciated				
Machinery and equipment	3,275,617	268,842	23,342	3,521,117
Buildings	3,248,369	31,009	-	3,279,378
Infrastructure	<u>6,325,296</u>	<u>-</u>	<u>-</u>	<u>6,325,296</u>
Total capital assets, being depreciated	<u>12,849,282</u>	<u>299,851</u>	<u>23,342</u>	<u>13,125,791</u>
Less accumulated depreciation for				
Machinery and equipment	1,774,650	215,311	23,342	1,966,619
Buildings	1,481,753	69,257	-	1,551,010
Infrastructure	<u>3,680,074</u>	<u>253,502</u>	<u>-</u>	<u>3,933,576</u>
Total accumulated depreciation	<u>6,936,477</u>	<u>538,070</u>	<u>23,342</u>	<u>7,451,205</u>
Total capital assets being depreciated, net	<u>5,912,805</u>	<u>(238,219)</u>	<u>-</u>	<u>5,674,586</u>
Governmental activities capital assets, net	<u>\$ 6,274,303</u>	<u>\$ (238,219)</u>	<u>\$ -</u>	<u>\$ 6,036,084</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 3,838	\$ -	\$ -	\$ 3,838
Construction in progress	<u>5,323,841</u>	<u>35,703</u>	<u>-</u>	<u>5,359,544</u>
Total capital assets, not being depreciated	<u>5,327,679</u>	<u>35,703</u>	<u>-</u>	<u>5,363,382</u>
Capital assets, being depreciated				
Machinery and equipment	1,185,001	78,938	37,009	1,226,930
Buildings and improvements	240,434	37,663	-	278,097
Water works system	4,776,440	-	-	4,776,440
Sewer system	7,308,686	-	-	7,308,686
Electric system	<u>2,861,932</u>	<u>41,440</u>	<u>-</u>	<u>2,903,372</u>
Total capital assets, being depreciated	<u>16,372,493</u>	<u>158,041</u>	<u>37,009</u>	<u>16,493,525</u>
Less accumulated depreciation for				
Machinery and equipment	763,038	71,047	37,009	797,076
Buildings and improvements	232,358	2,573	-	234,931
Water works system	2,685,717	105,289	-	2,791,006
Sewer system	3,973,047	124,939	-	4,097,986
Electric system	<u>1,995,665</u>	<u>69,897</u>	<u>-</u>	<u>2,065,562</u>
Total accumulated depreciation	<u>9,649,825</u>	<u>373,745</u>	<u>37,009</u>	<u>9,986,561</u>
Total capital assets being depreciated, net	<u>6,722,668</u>	<u>(215,704)</u>	<u>-</u>	<u>6,506,964</u>
Business-type activities capital assets, net	<u>\$ 12,050,347</u>	<u>\$ (180,001)</u>	<u>\$ -</u>	<u>\$ 11,870,346</u>

**NOTE 5: CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to function/programs of the City as follows:

<b>Governmental activities:</b>		
General government		\$ 53,807
Public safety		107,614
Public works		355,126
Cultural and recreation		<u>21,523</u>
Total depreciation expense - governmental activities		<u>\$538,070</u>
<b>Business-type activities:</b>		
Utilities		<u>\$373,745</u>
Total depreciation expense - business-type activities		<u>\$373,745</u>

**Discretely Presented Component Unit**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Yoakum Economic Development Corporation</b>				
Capital assets, not being depreciated				
Land and improvements	\$ 63,653	\$ -	\$ -	\$ 63,653
Total capital assets, not being depreciated	<u>63,653</u>	<u>-</u>	<u>-</u>	<u>63,653</u>
Discretely presented component unit capital assets, net	<u>\$ 63,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,653</u>

**NOTE 6: EMPLOYEES' RETIREMENT PLAN**

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing 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 TMRS. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**

Contributions

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

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

The annual pension cost and net pension obligation (asset) are as follows:

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 595,327	100%	\$ -
2011	656,140	100%	-
2010	611,620	100%	-

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

	Actuarial Valuation Information		
	12/31/11	12/31/10	12/31/09
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	26.0 years; closed period	27.0 years; closed period	28.0 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment rate of return *	7.0%	7.0%	7.5%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost of living adjustments	2.1%	2.1%	2.1%

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**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**Funded Status and Funding Progress

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

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/11	\$ 14,930,144	\$ 18,399,331	\$ 3,469,187	81.15%	\$ 2,971,032	116.77%

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

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

**NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**Plan Description

The Fire Fighters' Pension Commissioner (FFPC) is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. The Office of the FFPC issues a publicly available annual financial report that includes financial statements and required supplementary information (RSI). This report may be obtained by writing to FFPC, 920 Colorado Street, 11<sup>th</sup> Floor, Austin, Texas 78701 in addition, the report is available on FFPC's website at [www.ffpc.state.tx.us](http://www.ffpc.state.tx.us). At August 31, 2010, there were 199 members of fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,167
Terminated participants entitled to benefits but not yet receiving them	2,106
Active participants (vested and nonvested)	<u>4,371</u>
	<u>8,644</u>

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**NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Plan Description - (Continued)

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005) recodified the provision and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the 10th year of service, with the vesting percent increasing 10% for each of the next 5 years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by 6 times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were originally established by Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010, total contributions (dues and prior services) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2010, actuarial valuation.

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**NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)****Annual Required Contributions - (Continued)**

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010, (\$502,941 to help pay for the TESRS's administrative expenses) and with the assumed continuation of legislative appropriations of 1) the maximum state contribution amount in future years for up to 30 years as is necessary for the TESRS to have a 30-year amortization period, and 2) approximately \$500,000 each year to help pay for the TESRS's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Without the expected future annual contributions from the state, TESRS would have an inadequate contribution arrangement.

Three-Year Trend Information - State-wide			
<u>Fiscal Year Ending August 31</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
2010	\$ 2,875,103 <sup>3</sup>	\$ 2,875,103	100%
2009	2,698,271 <sup>3</sup>	2,698,271	100%
2008	3,160,764 <sup>2</sup>	11,239,339 <sup>1</sup>	356%

<sup>1</sup> Includes a state contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

**NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN**

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<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

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 retired term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$2,080, \$2,383, and \$2,040, respectively, which equaled the required contributions each year.

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**NOTE 9: RISK MANAGEMENT**

The City is exposed to various risks of loss encompassed in the areas of general liabilities, workers compensation claims, and employee health related expenses. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductible and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The City has also entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees. The City pays the premiums for full-time employees. Dependent coverage is available at additional premiums paid by the employee.

**NOTE 10: LONG-TERM DEBT****A. Changes In Long-term Liabilities**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Compensated absences	\$ 144,694	\$ 147,699	\$ 130,722	\$ 161,671	\$ 16,167
Total governmental activity long-term liabilities	<u>\$ 144,694</u>	<u>\$ 147,699</u>	<u>\$ 130,722</u>	<u>\$ 161,671</u>	<u>\$ 16,167</u>
<b>Business-type activities</b>					
General obligation bonds	\$ 975,000	\$ 995,000	\$ 1,230,000	\$ 740,000	\$ 245,000
Certificates of obligation	7,035,000	-	190,000	6,845,000	195,000
Less deferred amounts: Loss on refunding	<u>(24,230)</u>	<u>(44,104)</u>	<u>(35,256)</u>	<u>(33,078)</u>	<u>-</u>
Net bonds and certificates payable	7,985,770	950,896	1,384,744	7,551,922	440,000
Compensated absences	<u>76,505</u>	<u>57,478</u>	<u>49,899</u>	<u>84,084</u>	<u>8,408</u>
Total business-type activity long-term liabilities	<u>\$ 8,062,275</u>	<u>\$ 1,008,374</u>	<u>\$ 1,434,643</u>	<u>\$ 7,636,006</u>	<u>\$ 448,408</u>

For governmental activities, compensated absences are liquidated by the General Fund.

**NOTE 10: LONG-TERM DEBT - (Continued)**

**B. General Obligation Bonds and Certificates of Obligation**

Bonds and certificates payable at September 30, 2012, are comprised of the following individual issues:

\$995,000 Series 2011 General Obligation Refunding Bonds, due in annual installments of \$245,000 to \$255,000 through 2015; interest varying from 0.95% to 1.50%.	\$ 740,000
\$5,000,000 Series 2006 Combination Tax and Subordinate Lien Revenue Certificates of Obligation, due in annual installments of \$75,000 to \$345,000 through 2028; interest at 0.00%.	4,690,000
\$2,500,000 Series 2008 Combination Tax and Subordinate Lien Revenue Certificates of Obligation due in annual installments of \$110,000 to \$115,000 through 2031; interest at 0.00%.	<u>2,155,000</u>
Total General Obligation Certificates and Bonds	<u>\$ 7,585,000</u>

The City issues general obligation certificates and bonds to provide funds for the construction of improvements to various City infrastructures and for the payment of related contractual obligations for professional services.

Annual debt service requirements to maturity for certificates of obligation and general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 440,000	\$ 8,038	\$ 448,038
2014	440,000	5,281	445,281
2015	445,000	1,875	446,875
2016	460,000	-	460,000
2017	460,000	-	460,000
2018-2022	2,290,000	-	2,290,000
2023-2027	2,260,000	-	2,260,000
2028-2031	<u>790,000</u>	<u>-</u>	<u>790,000</u>
	<u>\$ 7,585,000</u>	<u>\$ 15,194</u>	<u>\$ 7,600,194</u>

There are a number of limitations and restrictions contained in the bond indenture. The City is in compliance with all significant limitations and restrictions. The bond indenture requires the establishment and maintenance of an interest and sinking fund. At September 30, 2012, the balance in this fund is \$131,071.

**NOTE 10: LONG-TERM DEBT - (Continued)**

C. Prior Year Defeasance of Debt

On December 14, 2004, the City issued \$2,265,000 in bonds to advance refund \$2,150,000 of outstanding 1995 General Obligation Bonds. As a result, the Series 1995 bonds are considered defeased and the liability has been removed from the business-type activities column of the statement of net assets. At September 30, 2012, \$755,000 of bonds outstanding are considered defeased.

D. Refunding Bonds

In October 2011, the City issued \$995,000 General Obligation Refunding Bonds with interest varying between 0.95% and of 1.50% to currently refund \$975,000 of the City's General Obligation Refunding Bonds, Series 2004, which were still outstanding in the amount of \$975,000 with interest rates at 3.34% and to provide funding for costs of issuance. The refunding of the Series 2004 bonds resulted in an economic gain of \$28,634 and an increase in cash flow of \$29,618.

**NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund.

Interfund receivable and payable balances as of September 30, 2012, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental	General Fund	\$ 116,776
		<u>\$ 116,776</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise fund to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Capital Project</u>	<u>Utility</u>	
General	\$ -	\$ 115,232	\$ -	\$ 115,232
Capital Project	260,200	-	62,000	322,200
Nonmajor Governmental	18,016	-	-	18,016
Utility	2,141,149	200,900	-	2,342,049
	<u>\$ 2,419,365</u>	<u>\$ 316,132</u>	<u>\$ 62,000</u>	<u>\$ 2,797,497</u>

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**NOTE 12: COMMITMENTS AND CONTINGENCIES**Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2012, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 13: RELATED PARTY TRANSACTIONS**

During fiscal year 2012, the City's General Fund entered into transactions with the Yoakum Economic Development Corporation, a discretely presented component unit of the City, whereby the Corporation contributed to the primary government \$64,710 for administrative services.

**NOTE 14: RESTATEMENT OF PREVIOUSLY ISSUED STATEMENTS**

The City's governmental activities financial statements for the fiscal year September 30, 2011 have been restated to properly reflect the accounts payable and net asset balances for fiscal year ending September 30, 2011. The result of the restatement was to increase the accounts payable balance and decrease the unrestricted net assets of the governmental activities by \$45,382. A similar adjustment was made to the fund financial statements. The General Fund's September 30, 2011 accounts payable balance was increased by \$45,382 and the unassigned fund balance was decreased by the same amount.

**NOTE 15: FUND BALANCES**

The following is a detail of the governmental fund balances as of September 30, 2012:

	Governmental Fund Balances				Total
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	
General					
Inventory	\$ 5,804	\$ -	\$ -	\$ -	\$ 5,804
Stabilization	-	-	1,079,183	-	1,079,183
Unassigned	-	-	-	1,011,842	1,011,842
Capital Project	-	2,286,817	-	-	2,286,817
Nonmajor Governmental					
Tourism	-	131,995	-	-	131,995
Culture and recreation	-	23,989	-	-	23,989
Public safety	-	114,293	-	-	114,293
Debt service	-	127,373	-	-	127,373
	<u>\$ 5,804</u>	<u>\$ 2,684,467</u>	<u>\$ 1,079,183</u>	<u>\$ 1,011,842</u>	<u>\$ 4,781,296</u>

**Required Supplementary Information**

**CITY OF YOAKUM, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2012

	2012			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Taxes	\$ 908,200	\$ 1,018,900	\$ 1,069,583	\$ 50,683
Licenses and permits	75,000	75,000	42,255	(32,745)
Intergovernmental	105,650	24,000	34,000	10,000
Charges for services	1,959,070	2,433,650	2,482,063	48,413
Fines and forfeitures	78,000	78,000	85,317	7,317
Investment income	25,000	25,000	13,122	(11,878)
Miscellaneous	114,150	143,750	103,692	(40,058)
<b>Total revenues</b>	<u>3,265,070</u>	<u>3,798,300</u>	<u>3,830,032</u>	<u>31,732</u>
<b>EXPENDITURES</b>				
Current				
General government	763,370	832,670	810,181	22,489
Public safety	2,132,950	2,101,115	2,020,782	80,333
Public works	1,976,050	2,236,900	2,184,245	52,655
Cultural and recreation	792,660	731,760	809,245	(77,485)
<b>Total expenditures</b>	<u>5,665,030</u>	<u>5,902,445</u>	<u>5,824,453</u>	<u>77,992</u>
Excess (deficiency) of revenues over expenditures	(2,399,960)	(2,104,145)	(1,994,421)	109,724
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,449,560	2,244,745	2,419,365	174,620
Transfers out	(49,600)	(140,600)	(115,232)	25,368
<b>Total other financing sources (uses)</b>	<u>2,399,960</u>	<u>2,104,145</u>	<u>2,304,133</u>	<u>199,988</u>
Net change in fund balance	-	-	309,712	309,712
Fund balance beginning of year, as restated	<u>1,787,117</u>	<u>1,787,117</u>	<u>1,787,117</u>	-
<b>Fund balance at end of year</b>	<u>\$ 1,787,117</u>	<u>\$ 1,787,117</u>	<u>\$ 2,096,829</u>	<u>\$ 309,712</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF YOAKUM, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HISTORICAL PENSION INFORMATION**  
September 30, 2012

**TEXAS MUNICIPAL RETIREMENT SYSTEM**

The schedule of funding progress 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.

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 14,930,144	\$ 18,399,331	\$ 3,469,187	81.15%	\$ 2,971,032	116.77%
12/31/10	10,068,444	14,838,564	4,770,120	67.85%	2,979,038	160.12%
12/31/09	8,958,103	13,811,585	4,853,482	64.90%	2,914,157	166.50%
12/31/08	8,014,458	12,695,109	4,680,651	63.13%	2,937,548	159.34%
12/31/07	7,385,418	11,565,602	4,180,184	63.90%	2,457,892	170.10%
12/31/06	7,201,451	9,749,222	2,547,771	73.87%	2,399,850	106.16%
12/31/05	6,929,154	9,336,602	2,407,448	74.21%	2,384,012	100.98%
12/31/04	7,398,080	9,644,529	2,246,449	76.71%	2,326,376	96.56%
12/31/03	7,166,456	9,474,240	2,307,784	75.64%	2,228,516	103.56%
12/31/02	6,649,762	8,737,233	2,087,471	76.11%	2,249,594	92.79%
12/31/01	6,204,270	8,121,785	1,917,515	76.40%	2,055,086	93.30%

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

	Actuarial Valuation Information	
	8/31/08	8/31/10
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period	6 years	30 years
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value	market value smoothed by a 5-year deferred recognition method with a 80% - 120% corridor on market value
Investment rate of return *	8.00%, net of expenses	7.75%, net of expenses
Projected salary increases	n/a	n/a
* Includes inflation at	3.50%	3.50%
Cost of living adjustment	none	none

**CITY OF YOAKUM, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HISTORICAL PENSION INFORMATION**  
 September 30, 2012

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered (b-a)/(c)
8/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/2008 <sup>2</sup>	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 <sup>3</sup>	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods, as well as benefit and contribution provisions, were first reflected in this valuation.

<sup>3</sup> Changes in actuarial assumptions were reflected in this valuation.

Three-Year Trend Information - State-wide			
Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2010	\$ 2,875,103 <sup>3</sup>	\$ 2,875,103	100%
2009	2,698,271 <sup>3</sup>	2,698,271	100%
2008	3,160,764 <sup>2</sup>	11,239,339 <sup>1</sup>	356%

<sup>1</sup> Includes a state contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2012 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

**CITY OF YOAKUM, TEXAS**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*September 30, 2012*

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**NOTE 1: BUDGETARY BASIS OF ACCOUNTING**

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**NOTE 2: BUDGETARY LEGAL COMPLIANCE**

General Fund expenditures in a number of different departments exceeded the amount appropriated during the current fiscal year. These variances are detailed below.

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Parks and recreation	\$ 588,990	\$ 677,870	\$ (88,880)

These over expenditures were funded by available fund balance in the General Fund.

**Combining and Individual Fund Statements and Schedules**

**CITY OF YOAKUM, TEXAS**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
*September 30, 2012*

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 261,001	\$ 10,597	\$ 271,598
Receivables (net)	16,109	9,089	25,198
Due from other funds	-	116,776	116,776
<b>Total assets</b>	<u>\$ 277,110</u>	<u>\$ 136,462</u>	<u>\$ 413,572</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 6,833	\$ -	\$ 6,833
Deferred revenue	-	9,089	9,089
<b>Total liabilities</b>	<u>6,833</u>	<u>9,089</u>	<u>15,922</u>
<b>Fund balance</b>			
Restricted			
Tourism	131,995	-	131,995
Public safety	114,293	-	114,293
Culture and recreation	23,989	-	23,989
Debt service	-	127,373	127,373
<b>Total fund balance</b>	<u>270,277</u>	<u>127,373</u>	<u>397,650</u>
<b>Total liabilities and fund balances</b>	<u>\$ 277,110</u>	<u>\$ 136,462</u>	<u>\$ 413,572</u>

**CITY OF YOAKUM, TEXAS**

**ALL NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

*For the year ended September 30, 2012*

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 66,310	\$ 113,600	\$ 179,910
Charges for services	12,898	-	12,898
Fines and forfeitures	16,592	-	16,592
Investment income	-	63	63
Miscellaneous	5,300	-	5,300
<b>Total revenues</b>	<u>101,100</u>	<u>113,663</u>	<u>214,763</u>
<b>EXPENDITURES</b>			
Current			
General government	39,864	-	39,864
Public safety	22,354	-	22,354
Debt service - interest	-	4,830	4,830
<b>Total expenditures</b>	<u>62,218</u>	<u>4,830</u>	<u>67,048</u>
Excess (deficiency) of revenues over expenditures	38,882	108,833	147,715
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(18,016)	-	(18,016)
<b>Total other financing sources (uses)</b>	<u>(18,016)</u>	<u>-</u>	<u>(18,016)</u>
Net change in fund balance	20,866	108,833	129,699
Fund balance beginning of year	249,411	18,540	267,951
<b>Fund balance at end of year</b>	<u>\$ 270,277</u>	<u>\$ 127,373</u>	<u>\$ 397,650</u>

**CITY OF YOAKUM, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
*September 30, 2012*

	Hotel/Motel Tax	Police Projects	Fire/ Ambulance Projects	Library Projects	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 120,685	\$ 88,435	\$ 27,892	\$ 23,989	\$ 261,001
Taxes receivable	<u>16,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,109</u>
<b>Total assets</b>	<u>\$ 136,794</u>	<u>\$ 88,435</u>	<u>\$ 27,892</u>	<u>\$ 23,989</u>	<u>\$ 277,110</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities					
Accounts payable	\$ 4,799	\$ 76	\$ 1,958	\$ -	\$ 6,833
<b>Total liabilities</b>	<u>4,799</u>	<u>76</u>	<u>1,958</u>	<u>-</u>	<u>6,833</u>
Fund balance					
Restricted					
Tourism	131,995	-	-	-	131,995
Public safety	-	88,359	25,934	-	114,293
Culture and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,989</u>	<u>23,989</u>
<b>Total fund balance</b>	<u>131,995</u>	<u>88,359</u>	<u>25,934</u>	<u>23,989</u>	<u>270,277</u>
<b>Total liabilities and fund balances</b>	<u>\$ 136,794</u>	<u>\$ 88,435</u>	<u>\$ 27,892</u>	<u>\$ 23,989</u>	<u>\$ 277,110</u>

**CITY OF YOAKUM, TEXAS**

*NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS*

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*For the year ended September 30, 2012*

	Hotel/Motel Tax	Police Projects	Fire/ Ambulance Projects	Library Projects	Total
<b>REVENUES</b>					
Taxes	\$ 66,310	\$ -	\$ -	\$ -	\$ 66,310
Charges for services	-	-	12,604	294	12,898
Fines and forfeitures	-	16,592	-	-	16,592
Investment income	-	-	-	-	-
Miscellaneous	-	3,775	225	1,300	5,300
<b>Total revenues</b>	<u>66,310</u>	<u>20,367</u>	<u>12,829</u>	<u>1,594</u>	<u>101,100</u>
<b>EXPENDITURES</b>					
Current					
General government	39,864	-	-	-	39,864
Public safety	-	18,044	4,310	-	22,354
<b>Total expenditures</b>	<u>39,864</u>	<u>18,044</u>	<u>4,310</u>	<u>-</u>	<u>62,218</u>
Excess (deficiency) of revenues over expenditures	26,446	2,323	8,519	1,594	38,882
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	-	-	-	(18,016)	(18,016)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,016)</u>	<u>(18,016)</u>
Net change in fund balances	26,446	2,323	8,519	(16,422)	20,866
Fund balances beginning of year	<u>105,549</u>	<u>86,036</u>	<u>17,415</u>	<u>40,411</u>	<u>249,411</u>
<b>Fund balances at end of year</b>	<u>\$ 131,995</u>	<u>\$ 88,359</u>	<u>\$ 25,934</u>	<u>\$ 23,989</u>	<u>\$ 270,277</u>

## **GENERAL FUND**

The General Fund is a constitutional fund and is utilized to account for all City revenues and expenditures except those which are required to be classed in other constitutional funds and such other funds that are presented separately to facilitate proper accountability.

**CITY OF YOAKUM, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****BALANCE SHEET**

September 30, 2012

With comparative totals for September 30, 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,303,897	\$ 1,757,730
Receivables, net		
Accounts	202,826	193,601
Ad valorem taxes	7,074	8,585
Ambulance	105,410	91,128
Fines	13,482	14,477
Franchise taxes	31,462	30,225
Due from other governments	147,381	175,650
Inventory	<u>5,804</u>	<u>5,625</u>
<b>Total assets</b>	<u>\$ 2,817,336</u>	<u>\$ 2,277,021</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities		
Accounts payable	\$ 329,938	\$ 168,178
Accrued expenditures	131,253	124,691
Deposits	7,889	8,624
Due to other funds	116,776	66,147
Due to component unit	500	500
Due to other governments	8,185	7,574
Deferred revenue	<u>125,966</u>	<u>114,190</u>
<b>Total liabilities</b>	<u>720,507</u>	<u>489,904</u>
Fund balance		
Nonspendable		
Inventory	5,804	5,625
Committed		
Stabilization	1,079,183	-
Unassigned	<u>1,011,842</u>	<u>1,781,492</u>
<b>Total fund balance</b>	<u>2,096,829</u>	<u>1,787,117</u>
<b>Total liabilities and fund balance</b>	<u>\$ 2,817,336</u>	<u>\$ 2,277,021</u>

**CITY OF YOAKUM, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012		Variance Positive (Negative)	2011
	Final Budget	Actual		Actual
<b>REVENUES</b>				
Taxes				
Ad valorem	\$ 62,200	\$ 60,496	\$ (1,704)	\$ 61,838
Penalty and interest	5,500	2,151	(3,349)	1,806
Franchise	150,000	127,000	(23,000)	128,362
Sales	800,000	879,663	79,663	732,328
Other	1,200	273	(927)	1,075
<b>Total taxes</b>	<b>1,018,900</b>	<b>1,069,583</b>	<b>50,683</b>	<b>925,409</b>
Licenses and permits				
Landfill/transfer station	60,000	16,292	(43,708)	45,073
Miscellaneous	15,000	25,963	10,963	18,660
<b>Total licenses and permits</b>	<b>75,000</b>	<b>42,255</b>	<b>(32,745)</b>	<b>63,733</b>
Intergovernmental				
	24,000	34,000	10,000	150,376
Charges for services				
Sanitation	1,889,310	1,908,752	19,442	1,408,075
Ambulance	189,000	189,861	861	218,158
Golf course	75,000	78,722	3,722	88,438
Swimming pool	5,500	5,405	(95)	4,851
Community center	4,000	4,232	232	3,751
RV park	150,000	181,252	31,252	149,664
Park pavilion	3,900	3,353	(547)	2,792
Chamber office rent	1,500	1,375	(125)	1,500
Other	115,440	109,111	(6,329)	100,225
<b>Total charges for services</b>	<b>2,433,650</b>	<b>2,482,063</b>	<b>48,413</b>	<b>1,977,454</b>
Fines and forfeitures				
Municipal courts	78,000	85,317	7,317	101,670
Investment income				
	25,000	13,122	(11,878)	16,848
Miscellaneous				
Donations/grants	110,750	53,092	(57,658)	130,275
Police calendar sales	2,000	1,883	(117)	2,025
Recycled materials	31,000	15,529	(15,471)	59,361
Other	-	33,188	33,188	65,772
<b>Total miscellaneous</b>	<b>143,750</b>	<b>103,692</b>	<b>(40,058)</b>	<b>257,433</b>
<b>Total revenues</b>	<b>3,798,300</b>	<b>3,830,032</b>	<b>31,732</b>	<b>3,492,923</b>

**CITY OF YOAKUM, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES</b>				
<b>General government</b>				
Administrative and finance				
Personnel	\$ 288,350	\$ 286,212	\$ 2,138	\$ 294,412
Supplies	10,000	7,385	2,615	9,106
Services	36,730	31,744	4,986	37,278
Maintenance	7,000	4,462	2,538	5,421
Other	6,500	5,942	558	4,812
Capital outlay	9,600	9,554	46	-
Total administrative and finance	<u>358,180</u>	<u>345,299</u>	<u>12,881</u>	<u>351,029</u>
Building maintenance				
Personnel	31,180	30,752	428	47,883
Supplies	2,600	2,015	585	2,616
Services	16,800	14,678	2,122	33,724
Maintenance	13,100	11,748	1,352	10,415
Total building maintenance	<u>63,680</u>	<u>59,193</u>	<u>4,487</u>	<u>94,638</u>
Inspection/code enforcement				
Personnel	46,780	47,878	(1,098)	46,255
Supplies	4,690	4,102	588	3,405
Services	10,300	7,515	2,785	10,072
Maintenance	450	169	281	10
Other	4,370	2,623	1,747	2,639
Total inspection/code enforcement	<u>66,590</u>	<u>62,287</u>	<u>4,303</u>	<u>62,381</u>
Economic development				
Personnel	109,150	109,204	(54)	105,667
Supplies	700	601	99	508
Services	4,200	4,489	(289)	4,716
Other	4,000	3,727	273	3,848
Total economic development	<u>118,050</u>	<u>118,021</u>	<u>29</u>	<u>114,739</u>
Non-departmental				
Insurance	23,000	19,854	3,146	20,101
Audit	41,050	37,215	3,835	20,050
Legal services	5,000	3,310	1,690	22,298
Community center	43,300	43,206	94	40,184
Sundry charges	57,500	65,338	(7,838)	23,443
Museum contribution	9,000	9,402	(402)	9,000
Other contributions	46,320	46,238	82	59,692

**CITY OF YOAKUM, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012		Variance Positive (Negative)	2011
	Final Budget	Actual		Actual
<b>EXPENDITURES - (Continued)</b>				
<b>General government - (continued)</b>				
Non-departmental - (continued)				
Senior citizen project	\$ 1,000	\$ 818	\$ 182	\$ 932
Total non-departmental	226,170	225,381	789	195,700
Total general government	832,670	810,181	22,489	818,487
<b>Public safety</b>				
Police				
Personnel	1,015,760	981,058	34,702	979,259
Supplies	48,300	46,349	1,951	50,066
Services	62,250	57,277	4,973	37,143
Maintenance	25,000	21,978	3,022	27,653
Other	10,000	6,568	3,432	13,942
Capital outlay	81,150	78,909	2,241	22,471
Total police	1,242,460	1,192,139	50,321	1,130,534
Municipal court				
Personnel	14,950	13,569	1,381	13,342
Supplies	500	-	500	229
Maintenance	2,300	1,375	925	2,287
Other	1,500	522	978	417
Total municipal court	19,250	15,466	3,784	16,275
Fire/ambulance				
Personnel	668,080	647,273	20,807	635,019
Supplies	45,950	49,692	(3,742)	43,590
Services	40,055	37,064	2,991	36,437
Maintenance	30,620	26,255	4,365	35,924
Other	22,100	20,804	1,296	30,139
Capital outlay	32,600	32,089	511	59,277
Total fire/ambulance	839,405	813,177	26,228	840,386
Total public safety	2,101,115	2,020,782	80,333	1,987,195

**CITY OF YOAKUM, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012		Variance Positive (Negative)	2011
	Final Budget	Actual		Actual
<b>EXPENDITURES - (Continued)</b>				
<b>Public works</b>				
Streets				
Personnel	\$ 275,690	\$ 272,186	\$ 3,504	\$ 266,996
Supplies	20,780	20,554	226	18,735
Services	2,400	2,407	(7)	2,211
Maintenance	29,500	28,774	726	48,524
Other	1,800	1,600	200	1,066
Capital outlay	295,000	287,128	7,872	234,446
Total streets	625,170	612,649	12,521	571,978
Solid waste				
Personnel	393,690	386,178	7,512	374,965
Supplies	51,330	50,994	336	39,958
Services	1,097,600	1,072,481	25,119	774,787
Maintenance	39,650	32,998	6,652	47,466
Other	1,960	1,903	57	499
Capital outlay	27,500	27,042	458	12,630
Total sanitation	1,611,730	1,571,596	40,134	1,250,305
Total public works	2,236,900	2,184,245	52,655	1,822,283
<b>Cultural and recreation</b>				
Parks and recreation				
Personnel	334,290	334,548	(258)	326,500
Supplies	55,950	54,741	1,209	49,907
Services	91,450	86,376	5,074	95,425
Maintenance	38,100	29,644	8,456	29,128
Other	12,900	34,791	(21,891)	32,420
Capital outlay	56,300	137,770	(81,470)	91,450
Total parks and recreation	588,990	677,870	(88,880)	624,830
Library				
Personnel	55,040	52,422	2,618	51,671
Supplies	10,400	9,502	898	11,493
Services	13,600	11,867	1,733	13,723
Maintenance	11,700	7,051	4,649	9,856
Other	2,280	1,992	288	1,540
Capital outlay	49,750	48,541	1,209	54,838
Total library	142,770	131,375	11,395	143,121
Total cultural and recreation	731,760	809,245	(77,485)	767,951
<b>Total expenditures</b>	<b>5,902,445</b>	<b>5,824,453</b>	<b>77,992</b>	<b>5,395,916</b>

**CITY OF YOAKUM, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

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	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
Excess (deficiency) of revenues over expenditures	\$ (2,104,145)	\$ (1,994,421)	\$ 109,724	\$ (1,902,993)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,244,745	2,419,365	174,620	2,289,745
Transfers out	<u>(140,600)</u>	<u>(115,232)</u>	<u>25,368</u>	<u>(62,970)</u>
<b>Total other financing sources (uses)</b>	<u>2,104,145</u>	<u>2,304,133</u>	<u>199,988</u>	<u>2,226,775</u>
Net change in fund balance	<u>\$ -</u>	309,712	<u>\$ 309,712</u>	323,782
Fund balance beginning of year		<u>1,787,117</u>		<u>1,463,335</u>
<b>Fund balance at end of year</b>		<u>\$ 2,096,829</u>		<u>\$ 1,787,117</u>

(concluded)

**CITY OF YOAKUM, TEXAS**  
**MAJOR ENTERPRISE FUND - UTILITY FUND**  
**BALANCE SHEET**  
*September 30, 2012*  
*With comparative totals for September 30, 2011*

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,519,825	\$ 5,245,816
Receivables (net)		
Accounts	1,887,405	1,566,608
Other	5,378	43,307
Inventory	296,920	329,157
Restricted assets		
Cash and cash equivalents	<u>2,525,816</u>	<u>2,736,028</u>
Total current assets	<u>10,235,344</u>	<u>9,920,916</u>
Noncurrent assets		
Capital assets		
Machinery and equipment	1,226,930	1,185,001
Buildings and improvements	240,434	240,434
Water works system	4,776,440	4,776,440
Sewer system	7,308,686	7,308,686
Electric system	<u>2,941,035</u>	<u>2,861,932</u>
Total depreciable capital assets	16,493,525	16,372,493
Less: Accumulated depreciation	<u>9,986,562</u>	<u>9,649,824</u>
Subtotal	6,506,963	6,722,669
Land	3,838	3,838
Construction in progress	<u>5,359,545</u>	<u>5,323,841</u>
Net capital assets	<u>11,870,346</u>	<u>12,050,348</u>
Bond issue costs (net)	<u>206,307</u>	<u>220,526</u>
Total noncurrent assets	<u>12,076,653</u>	<u>12,270,874</u>
<b>Total assets</b>	<u>22,311,997</u>	<u>22,191,790</u>

**CITY OF YOAKUM, TEXAS**  
**MAJOR ENTERPRISE FUND - UTILITY FUND**  
**BALANCE SHEET**  
*September 30, 2012*  
*With comparative totals for September 30, 2011*

	<u>2012</u>	<u>2011</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 546,040	\$ 829,599
Accrued expenses	74,966	74,585
Deposits	230,219	207,674
Accrued compensated absences	8,408	7,650
Accrued interest payable	1,158	4,071
Current portion of bonds and certificates payable	<u>440,000</u>	<u>425,000</u>
Total current liabilities	<u>1,300,791</u>	<u>1,548,579</u>
Noncurrent liabilities		
Accrued compensated absences	75,676	68,855
Bonds and certificates payable (net of deferred amounts)	<u>7,111,922</u>	<u>7,560,771</u>
Total noncurrent liabilities	<u>7,187,598</u>	<u>7,629,626</u>
<b>Total liabilities</b>	<u>8,488,389</u>	<u>9,178,205</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	6,844,240	6,800,605
Unrestricted net assets	<u>6,979,368</u>	<u>6,212,980</u>
<b>Total net assets</b>	<u>\$ 13,823,608</u>	<u>\$ 13,013,585</u>

**CITY OF YOAKUM, TEXAS***MAJOR ENTERPRISE FUND - UTILITY FUND**SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS**BUDGET (NON-GAAP BASIS) AND ACTUAL**For the year ended September 30, 2012**With comparative totals for the year ended September 30, 2011*

	2012		Variance Positive (Negative)	2011
	Final Budget	Actual		Actual
<b>OPERATING REVENUES</b>				
Electric service	\$ 8,302,500	\$ 8,573,832	\$ 271,332	\$ 8,335,502
Water service	1,165,450	1,168,894	3,444	1,222,905
Sewer service	762,000	779,624	17,624	729,998
Service taps	15,000	45,843	30,843	28,711
Penalties	100,000	98,037	(1,963)	100,709
Service charges	22,500	25,774	3,274	23,981
Miscellaneous	73,670	124,217	50,547	67,906
<b>Total operating revenues</b>	<b>10,441,120</b>	<b>10,816,221</b>	<b>375,101</b>	<b>10,509,712</b>
<b>OPERATING EXPENSES</b>				
General and administrative				
Personnel	342,460	326,378	16,082	342,313
Supplies	33,070	28,056	5,014	31,124
Services	34,760	21,638	13,122	30,405
Maintenance	3,100	2,188	912	4,981
Other	5,000	5,580	(580)	4,376
Bad debts	50,000	38,648	11,352	34,139
Capital outlay	-	-	-	37,290
Total general and administrative	468,390	422,488	45,902	484,628
Electric				
Personnel	258,400	253,205	5,195	260,292
Supplies	15,280	14,175	1,105	11,061
Cost of power	5,350,000	5,360,355	(10,355)	5,155,186
Services	90,550	66,566	23,984	81,388
Maintenance	59,250	45,077	14,173	57,348
Other	15,400	11,820	3,580	4,980
Capital outlay	37,350	40,096	(2,746)	168,176
Total electric	5,826,230	5,791,294	34,936	5,738,431
Water				
Personnel	257,000	245,160	11,840	261,922
Supplies	56,330	55,953	377	60,772
Services	71,440	67,747	3,693	80,262
Maintenance	129,700	123,627	6,073	120,707
Other	7,370	5,318	2,052	3,249
Capital outlay	80,000	77,073	2,927	12,892
Total water	601,840	574,878	26,962	539,804

**CITY OF YOAKUM, TEXAS**

MAJOR ENTERPRISE FUND - UTILITY FUND  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS  
 BUDGET (NON-GAAP BASIS) AND ACTUAL  
 For the year ended September 30, 2012  
 With comparative totals for the year ended September 30, 2011

	2012		Variance	2011
	Final Budget	Actual	Positive (Negative)	Actual
<b>OPERATING EXPENSES - (Continued)</b>				
Sewer				
Personnel	\$ 324,650	\$ 335,620	\$ (10,970)	\$ 324,987
Supplies	29,620	29,301	319	25,171
Services	115,700	114,103	1,597	104,069
Maintenance	75,850	68,077	7,773	44,608
Other	3,000	2,945	55	1,927
Capital outlay	12,000	8,820	3,180	38,455
Total sewer	<u>560,820</u>	<u>558,866</u>	<u>1,954</u>	<u>539,217</u>
Warehouse				
Personnel	66,970	74,078	(7,108)	66,081
Supplies	2,360	1,516	844	2,622
Services	10,700	10,688	12	13,224
Maintenance	4,180	3,099	1,081	866
Other	700	615	85	423
Capital outlay	25,000	11,823	13,177	17,912
Total warehouse	<u>109,910</u>	<u>101,819</u>	<u>8,091</u>	<u>101,128</u>
Garage				
Personnel	90,280	71,850	18,430	90,586
Supplies	4,910	4,740	170	4,830
Services	2,950	2,905	45	2,524
Maintenance	3,000	2,554	446	5,879
Other	300	751	(451)	136
Total garage	<u>101,440</u>	<u>82,800</u>	<u>18,640</u>	<u>103,955</u>
<b>Total operating expenses</b>	<u>7,668,630</u>	<u>7,532,145</u>	<u>136,485</u>	<u>7,507,163</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	2,772,490	3,284,076	511,586	3,002,549
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	125,000	44,871	(80,129)	51,880
Bond principal, interest, and fiscal charges	<u>(457,970)</u>	<u>(456,438)</u>	<u>1,532</u>	<u>(461,002)</u>
Total nonoperating revenues (expenses)	<u>(332,970)</u>	<u>(411,567)</u>	<u>(78,597)</u>	<u>(409,122)</u>

**CITY OF YOAKUM, TEXAS***MAJOR ENTERPRISE FUND - UTILITY FUND**SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS**BUDGET (NON-GAAP BASIS) AND ACTUAL**For the year ended September 30, 2012**With comparative totals for the year ended September 30, 2011*

	2012		Variance	2011
	Final Budget	Actual	Positive (Negative)	Actual
Income (loss) before contributions and transfers	\$ 2,439,520	\$ 2,872,509	\$ 432,989	\$ 2,593,427
Contributions and transfers				
Capital contributions	-	-	-	37,205
Transfers in	274,600	62,000	(212,600)	206,143
Transfers out	<u>(2,335,295)</u>	<u>(2,342,049)</u>	<u>(6,754)</u>	<u>(2,285,135)</u>
Net transfers in (out)	<u>(2,060,695)</u>	<u>(2,280,049)</u>	<u>(219,354)</u>	<u>(2,041,787)</u>
Change in net assets - (NON-GAAP BUDGETARY BASIS)	<u>\$ 378,825</u>	592,460	<u>\$ 213,635</u>	551,640
<b>ADJUSTMENTS</b>				
To adjust for principal payments on long-term debt		445,000		415,000
To adjust for capital expenses		151,551		261,208
To adjust for amortization expense		(5,243)		(16,066)
To adjust for depreciation expense		<u>(373,745)</u>		<u>(374,792)</u>
Change in net assets - (GAAP BASIS)		810,023		836,990
Total net assets at beginning of year		<u>13,013,585</u>		<u>12,176,595</u>
<b>Total net assets at end of year</b>		<u>\$ 13,823,608</u>		<u>\$ 13,013,585</u>

(concluded)

**OVERALL COMPLIANCE AND INTERNAL  
CONTROL SECTION**



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**REPORT 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**

The Honorable Mayor and Members  
of the City Council  
City of Yoakum, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Yoakum, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 10, 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of the City's 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

During the course of our engagement we prepared material adjustments to the City's financial records in order for the financial statements to be in accordance with generally accepted accounting principles (GAAP). . Also, there is inadequate segregation of duties within the business office.

The Honorable Mayor and Members  
of the City Council

Management has reviewed the findings described above and concurs with them. Their response to the findings is that the City will perform an in-depth review of all the administrative staffs' duties and determine what functions, if any, can be rotated to other members of the office staff. In addition, the staff will determine what functions may be automated using the existing software.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Mayor and City Council, others within the organization, and other federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Harrison, Waldrop & Uhenk, LLP*

May 10, 2013