

**CITY OF  
BALCH SPRINGS, TEXAS**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**SEPTEMBER 30, 2010**



**CITY OF BALCH SPRINGS, TEXAS**

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**CITY OF BALCH SPRINGS, TEXAS**

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**FINANCIAL SECTION**

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Member of the City of Council  
City of Balch Springs, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Balch Springs, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Balch Springs, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Balch Springs, Texas, as of September 30, 2010, and the respective changes in financial position 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 September 30, 2010, on our consideration of the City of Balch Springs, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 34 through 38 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.

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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements 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.

*Patillo, Brown & Hill, L.L.P.*

February 9, 2011



**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Balch Springs, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and position of the City of Balch Springs for the fiscal year ended September 30, 2010.

### FINANCIAL HIGHLIGHTS

- The City of Balch Springs decreased its assets at the close of the fiscal year ended September 30, 2010, by \$995,592.
- As of the close of the current fiscal year, the City of Balch Springs' governmental funds reported combined ending fund balances of \$1,411,947. Approximately 92% of this amount, \$1,187,919 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$478,820, or 5% of the General Fund expenditures.

### OVERVIEW OF FINANCIAL STATEMENTS

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

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Balch Springs' 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 whether the financial position of the City of Balch Springs is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. 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 taxes and earned but unused vacation leave).

The government-wide financial statements report functions of the City of Balch Springs that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City of Balch Springs include general government, public safety, community services, and community development.

The government-wide financial statements can be found on pages 9 – 11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Balch Springs, 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 of Balch Springs are governmental 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*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Balch Springs maintains 21 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 each of these funds in this report.

The basic governmental fund financial statements can be found on pages 12 – 15 of this report.

**Notes to the 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 16 – 33 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Balch Springs' General Fund budget. This information can be found on pages 34 – 38 of this report.

## 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 of Balch Springs, assets exceeded liabilities by \$1,443,825 at the close of the most recent fiscal year. The following table presents a summary of the City's assets, liabilities and net assets as of September 30, 2010:

### CITY OF BALCH SPRINGS' NET ASSETS

	Governmental Activities	
	2010	2009
Current and other assets	\$ 2,832,523	\$ 2,829,043
Capital assets	<u>8,764,593</u>	<u>9,062,652</u>
Total assets	<u>11,597,116</u>	<u>11,891,695</u>
Long-term liabilities	9,393,595	10,553,808
Other liabilities	<u>759,696</u>	<u>889,654</u>
Total liabilities	<u>10,153,291</u>	<u>11,443,462</u>
Net assets:		
Invested in capital assets, net of related debt	357,268	24,980
Restricted	152,442	28,290
Unrestricted	<u>934,115</u>	<u>394,963</u>
Total net assets	<u>\$ 1,443,825</u>	<u>\$ 448,233</u>

Overall, the City's net assets increased by \$995,592 during the year ended September 30, 2010. The following table presents a summary of the City's operations for the year ended September 30, 2010:

**CITY OF BALCH SPRINGS' CHANGES IN NET ASSETS**

	Governmental Activities	
	2010	2009
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 2,016,831	\$ 1,827,837
Operating grants and contributions	946,716	432,067
General revenues:		
Ad valorem taxes	5,204,051	4,599,745
Franchise, sales and other taxes	4,762,742	4,793,749
Interest income	15,242	27,688
Gain on sale of capital assets	-	3,000
Total revenues	<u>12,945,582</u>	<u>11,684,086</u>
<b>EXPENSES</b>		
General government	3,683,281	3,266,499
Public safety	4,629,158	4,953,233
Public works	1,626,510	1,826,810
Legal	480,063	489,223
Cultural and recreation	417,489	582,164
Community services	699,246	348,952
Interest on long-term debt	414,243	449,192
Total expenses	<u>11,949,990</u>	<u>11,916,073</u>
<b>CHANGE IN NET ASSETS</b>	995,592	( 231,987)
<b>NET ASSETS, BEGINNING</b>	<u>448,233</u>	<u>680,220</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 1,443,825</u>	<u>\$ 448,233</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

**Governmental funds.** The focus of the City of Balch Springs' *governmental funds* is to provide information of near-term inflows, outflows, and balances of *spendable* resources. Such information may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Balch Springs' governmental funds reported combined ending fund balances of \$1,411,947, an increase of \$94,547 in comparison with the prior year. Approximately 92% of this total amount, \$1,187,919, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay either debt service or be spent on the Red Flex Program. This amount totals \$224,028.

The General Fund is the chief operating fund of the City of Balch Springs. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$478,820. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5% of total General Fund expenditures.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The following table presents a summary budgetary comparison for the City's General Fund for the year ended September 30, 2010:

**CITY OF BALCH SPRINGS, TEXAS  
GENERAL FUND BUDGETARY COMPARISON**

	Budget	Actual	Variance Positive (Negative)
Revenues	\$ 10,414,859	\$ 10,086,786	\$( 328,073)
Expenditures	10,612,558	10,355,245	257,313
Other financing sources	-	3,000	3,000
Change in fund balance	\$( 197,699)	\$( 265,459)	\$( 67,760)

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets for its governmental activities as of September 30, 2010, amounts to \$8,764,593 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and construction in progress. Current year additions were vehicles for the Police Department and Fire Department as well as computer equipment for the Finance Department and General Government. Construction in progress is for a substantial expansion/reconstruction of a major thoroughfare.

**Long-term debt.** At the end of the current fiscal year, the City of Balch Springs had total bonded debt outstanding of \$9,393,595. The following table presents a summary of the City's long-term debt as of September 30, 2010:

**CITY OF BALCH SPRINGS, TEXAS  
LONG-TERM DEBT**

	Governmental Activities	
	2010	2009
Certificates of obligation	\$ 4,905,000	\$ 4,905,000
General obligation refunding bonds	3,375,000	3,955,000
Leases payable	245,323	389,527
Accrued compensated absences	573,730	1,182,539
Net pension obligation	294,542	121,743
	\$ 9,393,595	\$ 10,553,809

The City of Balch Springs' total debt decreased by \$1,160,214 during the current fiscal year. The City added leases of \$39,679 during the fiscal year. Please see the note disclosure on pages 29 – 32 for additional information pertaining to the City's debt.

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

In May 2009, the citizens voted to restructure the City sales tax to include a street maintenance tax to help repair roads. The sales tax allocation became effective October 1, 2009, and is used to fund positions to repair streets as well as purchase equipment and supplies for the repairs.

Despite declining residential home values, the ad valorem tax rate for 2010-2011 was not increased. The tax rate remains at .76 per \$100 of value. Revenues for property taxes for 2010-2011 are projected to decrease by approximately 2.5%.

The City's 2010-2011 operating budget reflects an increase in expenditures of \$206,717 which is less than 2%. The increase is due to the rising cost of employee benefits and contractual pay increases for Civil Service employees. The Police Department has frozen one officer position and the Public Works Department has frozen one public works helper position. All civilian employees within the City will not receive any pay increases in order to meet budget projections in the next fiscal year.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Balch Springs' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Balch Springs, Finance Department, 3117 Hickory Tree Road, Balch Springs, Texas 75180.



**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF BALCH SPRINGS, TEXAS**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2010**

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Balch Springs Industrial and Economic Development Corporation</u>	<u>Balch Springs Community and Economic Development Corporation</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 241,909	\$ -	\$ -
Investments	1,020,701	1,634,384	849,198
Receivables (net of allowances for uncollectible)	1,483,874	117,851	117,851
Prepaid expenses	86,039	-	-
Capital assets:			
Land	1,148,540	-	-
Buildings	7,853,196	-	-
Equipment	529,292	-	-
Vehicles	3,139,622	-	-
Infrastructure	685,286	-	-
Construction in progress	-	3,030,567	2,875,143
Less: accumulated depreciation	( 4,591,343)	-	-
Total capital assets	<u>8,764,593</u>	<u>3,030,567</u>	<u>2,875,143</u>
Total assets	<u>11,597,116</u>	<u>4,782,802</u>	<u>3,842,192</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Cash overdraft	-	50,102	100,643
Accounts payable	34,237	-	-
Accrued liabilities	481,453	-	-
Accrued interest payable	71,586	-	8,337
Due to other governments	111,818	-	-
Other liabilities	60,602	-	-
Long-term liabilities:			
Due within one year	677,940	-	130,000
Due in more than one year	8,715,655	-	1,155,000
Total liabilities	<u>10,153,291</u>	<u>50,102</u>	<u>1,393,980</u>
Net assets:			
Invested in capital assets, net of related debt	357,268	3,030,567	1,590,143
Restricted for:			
Red Flex Program	119,838	-	-
Debt service	32,604	-	-
Unrestricted	<u>934,115</u>	<u>1,702,133</u>	<u>858,069</u>
Total net assets	<u>\$ 1,443,825</u>	<u>\$ 4,732,700</u>	<u>\$ 2,448,212</u>

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

**CITY OF BALCH SPRINGS, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>				
Governmental activities:				
General government	\$ 3,683,281	\$ 251,118	\$ -	\$ -
Public safety	4,629,158	1,176,381	128,922	-
Public works	1,626,510	350,906	-	-
Legal	480,063	88,831	-	-
Culture and recreation	417,489	85,979	8,513	-
Community services	699,246	63,616	809,281	-
Interest on long-term debt	414,243	-	-	-
Total governmental activities	\$ 11,949,990	\$ 2,016,831	\$ 946,716	\$ -
<b>Component units</b>				
Balch Springs Industrial and Economic Development Corporation:				
Economic development	\$ 377,491	\$ -	\$ -	\$ -
Total Balch Springs Industrial and Economic Development Corporation	377,491	-	-	-
Balch Springs Community and Economic Development Corporation:				
Economic development	870,154	-	-	-
Interest on long-term debt	72,437	-	-	-
Total Balch Springs Community and Economic Development Corporation	942,591	-	-	-
Total component units	\$ 1,625,136	\$ -	\$ -	\$ -
<b>General revenues:</b>				
Taxes:				
Property taxes				
Franchise, sales, and other				
Interest income				
Total general revenues				
Change in net assets				
Net assets, beginning				
Net assets, ending				

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

Net (Expense) Revenue and Changes in Net Assets Total	Component Units	
	Balch Springs Industrial and Economic Development Corporation	Balch Springs Community Economic Development Corporation
\$( 3,432,163)	\$ -	\$ -
( 3,323,855)	-	-
( 1,275,604)	-	-
( 391,232)	-	-
( 322,997)	-	-
173,651	-	-
( 414,243)	-	-
<u>( 8,986,443)</u>	<u>-</u>	<u>-</u>
-	( 377,491)	-
-	<u>( 377,491)</u>	<u>-</u>
-	-	( 870,154)
-	-	<u>( 72,437)</u>
-	-	( 942,591)
-	<u>( 377,491)</u>	<u>( 942,591)</u>
5,204,051	-	-
4,762,742	697,569	647,274
15,242	8,590	9,057
<u>9,982,035</u>	<u>706,159</u>	<u>656,331</u>
995,592	328,668	( 286,260)
<u>448,233</u>	<u>4,404,032</u>	<u>2,734,472</u>
<u>\$ 1,443,825</u>	<u>\$ 4,732,700</u>	<u>\$ 2,448,212</u>

**CITY OF BALCH SPRINGS, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2010**

	<u>General</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
<b>ASSETS</b>					
Cash in bank - checking and on hand	\$ 77,507	\$ 66,958	\$ 16,812	\$ 80,632	\$ 241,909
Investments	793,551	51,040	68,437	107,673	1,020,701
Receivables	1,103,125	-	113,086	126,122	1,342,333
Prepaid expenses	86,039	-	-	-	86,039
Due from other funds	145,384	-	15,465	496,003	656,852
Total assets	<u>2,205,606</u>	<u>117,998</u>	<u>213,800</u>	<u>810,430</u>	<u>3,347,834</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	19,082	-	-	15,155	34,237
Accrued liabilities	481,453	-	-	-	481,453
Due to other governments	111,818	-	-	-	111,818
Due to other funds	475,255	-	-	181,597	656,852
Deferred revenue	481,315	-	109,610	-	590,925
Other liabilities	38,025	-	-	22,577	60,602
Total liabilities	<u>1,606,948</u>	<u>-</u>	<u>109,610</u>	<u>219,329</u>	<u>1,935,887</u>
Fund balances:					
Reserved for debt service	-	-	104,190	-	104,190
Reserved for Red Flex Program	119,838	-	-	-	119,838
Unreserved	478,820	117,998	-	591,101	1,187,919
Total fund balances	<u>598,658</u>	<u>117,998</u>	<u>104,190</u>	<u>591,101</u>	<u>1,411,947</u>
Total liabilities and fund balances	<u>\$ 2,205,606</u>	<u>\$ 117,998</u>	<u>\$ 213,800</u>	<u>\$ 810,430</u>	<u>\$ 3,347,834</u>

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

**CITY OF BALCH SPRINGS, TEXAS**

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

**SEPTEMBER 30, 2010**

Total fund balance, governmental funds	\$ 1,411,947
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 in the funds.	8,764,593
Certain other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	732,466
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	( 9,465,181)
Net Assets of governmental activities in the Statement of Net Assets	<u>\$ 1,443,825</u>

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

**CITY OF BALCH SPRINGS, TEXAS**

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

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>General</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
<b>REVENUES</b>					
Taxes:					
Ad valorem	\$ 4,249,572	\$ -	\$ 977,036	\$ -	\$ 5,226,608
Franchise, sales, and other	4,008,763	-	-	778,436	4,787,199
Licenses and permits	474,296	-	-	81,126	555,422
Fines and warrants	905,634	-	-	-	905,634
Intergovernmental	93,549	-	-	417,366	510,915
Interest income	13,762	273	594	613	15,242
Miscellaneous	341,210	-	-	568,959	910,169
Total revenues	<u>10,086,786</u>	<u>273</u>	<u>977,630</u>	<u>1,846,500</u>	<u>12,911,189</u>
<b>EXPENDITURES</b>					
General government	3,352,292	44,200	7,600	218,777	3,622,869
Public safety	4,719,975	-	-	76,672	4,796,647
Public works	1,262,587	4,266	-	242,230	1,509,083
Legal	455,880	-	-	3,290	459,170
Culture and recreation	401,716	-	-	34,710	436,426
Community service	-	-	-	697,855	697,855
Debt service:					
Principal	139,678	-	580,000	44,205	763,883
Interest and fees	23,117	-	390,214	5,410	418,741
Capital outlay	-	45,617	-	109,030	154,647
Total expenditures	<u>10,355,245</u>	<u>94,083</u>	<u>977,814</u>	<u>1,432,179</u>	<u>12,859,321</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	<u>( 268,459)</u>	<u>( 93,810)</u>	<u>( 184)</u>	<u>414,321</u>	<u>51,868</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of capital assets	3,000	-	-	-	3,000
Proceeds from capital leases	-	-	-	39,679	39,679
Total other financing sources and uses	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>39,679</u>	<u>42,679</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 265,459)</u>	<u>( 93,810)</u>	<u>( 184)</u>	<u>454,000</u>	<u>94,547</u>
<b>FUND BALANCES, BEGINNING</b>	<u>864,117</u>	<u>211,808</u>	<u>104,374</u>	<u>137,101</u>	<u>1,317,400</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 598,658</u>	<u>\$ 117,998</u>	<u>\$ 104,190</u>	<u>\$ 591,101</u>	<u>\$ 1,411,947</u>

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



**CITY OF BALCH SPRINGS, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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

Net change in fund balances - total governmental funds	\$ 94,547
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	( 273,790)
The net effect of various miscellaneous transactions involving capital assets (i.e sales, trade-ins, gains and losses) to decrease net assets.	( 24,269)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	724,204
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	34,393
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>440,507</u>
Change in net assets of governmental activities	\$ <u>995,592</u>

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

# CITY OF BALCH SPRINGS, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Organization

The City of Balch Springs, Texas (the "City") is incorporated as a municipal corporation under the laws of the State of Texas. The City operates under a Council-Manager form of government and provides or contracts for services in connection with public safety, sanitation, public works, library, and parks and recreation.

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the significant accounting policies consistently applied in the presentation of the accompanying financial statements for the City.

#### B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations and the Balch Springs Industrial and Economic Development Corporation and the Balch Springs Community and Economic Development Corporation, its discretely presented component units. The criteria for including legally separate organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," is financial accountability. Financial accountability is defined as appointment by the primary government of a voting majority of the organization's board and either:

- The primary government has the ability to impose its will on the organization; or
  - The organization has the potential to provide a financial benefit to, or impose a financial burden on, the primary government.
- (1) *The Balch Springs Industrial and Economic Development Corporation* promotes economic and industrial development within the City and the State of Texas. There are five directors, all of whom are appointed by the City Council. The directors need not be residents of the City. The Corporation is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of the Corporation, the assets of the Corporation shall be distributed to the City.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Financial Reporting Entity (Continued)**

- (2) *The Balch Springs Community and Economic Development Corporation* promotes economic development within the City and the State of Texas. There are seven directors, all of whom are appointed by the City Council. Each of the directors shall be a resident of the City. The Corporation is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of the Corporation, the assets of the Corporation shall be distributed to the City.

**C. Government-wide Financial Statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The City has no business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program, and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City has the following major governmental funds:

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

The ***Construction Fund*** is used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from bond proceeds.

The ***Debt Service Fund*** is used to account for the accumulation of financial resources for the payment, interest and related costs of general long-term debt paid primarily from taxes levied by the City.

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 revenue includes all taxes.

### E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### F. Cash and Cash Equivalents

Cash and equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents in the City of Balch Springs' financial statements include amounts in demand deposits, certificates of deposit and money market accounts.

### G. Investments

City funds are deposited in an authorized depository bank. All deposits are fully collateralized (100%) with depository insurance; direct obligations of the United States of America backed by its full faith and credit; obligations guaranteed by the United States of America; evidence of indebtedness guaranteed by Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperative, Federal Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Associations; or any general or special obligation approved by the Attorney General of Texas issued by a State of Texas public agency payable from taxes, revenue, either or both, provided all of such obligations are rated A or better by a generally recognized national bank-rating agency. The collateral is held in a bank other than the one in which the deposit was made.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at the end of the fiscal year.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 30 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to three percent of outstanding property taxes at September 30, 2010.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

The Texas Property Tax Code (“Code”), with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles from taxation. In addition, the Code provides for the establishment of countywide appraisal districts. Since January 1, 1983, the appraisal of property within the City has been the responsibility of the countywide appraisal district.

The appraisal district is required under the Code to appraise all taxable property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of real property within the appraisal district must be reviewed every four years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

### I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities columns in the governmental-wide financial statements. Capital assets used in governmental fund operations are reported in the fund financial statements as capital outlay expenditures of the governmental fund upon acquisition. The City has elected not to report general infrastructure assets retroactively.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Capital Assets (Continued)**

Assets capitalized have an original cost of \$5,000 or more and a useful life in excess of one year. Depreciation has been calculated for all depreciable assets using the straight-line method. The estimated useful lives are as follows:

Vehicles	7 - 15 years
Office furniture and equipment	5 - 15 years
Machinery and equipment	15 years
Buildings and improvements	10 - 40 years

**J. Accumulated Unpaid Vacation, Sick Leave and Other Employee Benefits**

The City's Police and Fire Department employees (civil service) accumulate 10 sick hours and 15 sick hours per month, respectively. The leave may be accumulated without limit. Upon termination, the civil service employees will receive lump sum payment for the full amount of sick days, if not more than 90 days are accumulated. If accumulation is in excess of 90 days, the lump sum payment is limited to that amount which would remain if the employee was allowed to use 90 days in the last six months of employment.

All other City employees accumulate 10 hours of sick leave per month. Non-civil service employees are required to be a City employee for at least 10 years to receive pay for unused sick leave. This pay is limited to 90 days.

Vacation time for the City's Police and Fire Department employees will accumulate up to 15 days (120 hours) per year with accumulation from year to year only upon the approval of the City Council. All other employees will accrue vacation according to length of service, and accumulation from year to year will be only upon the approval of the City Administrator. Upon termination, all employees will be paid for their accumulated vacation time.

At September 30, 2010, the liability for accrued compensated absences is approximately \$573,730. The amount expected to be paid from current resources is immaterial.

**K. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements, the face amount of debt issued is reported as other financing sources for the governmental fund types.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

**Government-wide Financial Statements**

In the government-wide financial statements, equity is classified as net assets and is presented in three components:

Invested in Capital Assets, Net of Related Debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – consists of net assets with constraints placed on their use either by: (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – Consists of all net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Fund Financial Statements**

Governmental fund equity is classified as fund balance and is presented as reserved and unreserved.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$9,465,181 difference are as follows:

Serial bonds and certificates of obligation	\$ 8,280,000
Accrued interest payable	71,586
Compensated absences	573,730
Leases payable	245,323
Net pension obligation	<u>294,542</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>9,465,181</u>

(continued)

2. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**  
 (Continued)

**Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(273,790) difference are as follows:

Capital outlay	\$ 153,447
Depreciation expense	( 427,237)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$( 273,790)

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$724,204 difference are as follows:

Principal payments	\$ 763,883
Capital lease financing	( 39,679)
Net adjustment to reduce <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 724,204

3. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

A formal budget is established prior to each fiscal year for the General Fund. The budget is established under applicable state law with citizen input and is adopted by the City Council. The adopted budget may be legally amended by the City Council at any time during the fiscal year. This budget is for management guidelines and tools only, and expenditures may legally exceed budget appropriations under certain emergency conditions. All appropriations that have not been expended shall lapse at the end of the budget year.

**Deficit Fund Equity**

The following funds had deficit fund balances at September 30, 2010:

Contractual Obligation Fund	\$( 127,278)
-----------------------------	--------------

All deficit balances were incurred due to the City not transferring monies from the General Fund over to the respective funds. It is expected that the City will make these transfers during the next fiscal year.



#### 4. DETAILED NOTES ON ALL FUNDS

##### Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
City:		
TexPool	\$ 248,005	34
LOGIC	9,436	43
Prosperity Bank	763,240	1
MBIA	20	35
Balch Springs Industrial and Economic Development Corporation:		
TexPool	50,068	34
Prosperity	1,584,316	1
Balch Springs Community and Economic Development Corporation:		
TexPool	50,025	34
Prosperity	799,173	1

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

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**Custodial Credit Risk.** 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. As of September 30, 2010, \$1,039,808 of the City's \$1,289,808 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$250,000, was covered by FDIC insurance.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Deposits and Investments** (Continued)

**Credit Risk.** It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investment pools are rated as follows by Standard & Poor's Investors Service.

TexPool	AAAm
LOGIC	AAA

**Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Total
	General	Debt Service	Other Governmental	
Receivables:				
Taxes	\$ 1,100,814	\$ 116,583	\$ 6,128	\$ 1,223,525
Due from other governments	14,324	-	119,994	134,318
Other	3,334	-	-	3,334
Gross receivables	1,118,472	116,583	126,122	1,361,177
Less: allowance for uncollectibles	( 15,347)	( 3,497)	-	( 18,844)
Net total receivables	\$ 1,103,125	\$ 113,086	\$ 126,122	\$ 1,342,333

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. 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:

	Unavailable
General Fund	
Taxes	\$ 481,315
Total General Fund	481,315
Debt Service Fund	
Taxes	109,610
Total Debt Service Fund	109,610
Total governmental funds	\$ 590,925

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property and certain personal property located in the City. Tax liens attach as of January 1. The assessed value, net of exemptions, upon which the fiscal 2010 levy was based, was \$691,043,892.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables (Continued)

Property taxes are limited by the Texas constitution to \$2.50 per \$100 of assessed valuation and by City Charter to \$1.50 per \$100 valuation. Also, the tax rate set per budget year shall not result in property tax revenue increase greater than seven percent of the total property tax revenue collected in the preceding budget year, adjusted for new construction, unless authorized by the voters of the City at a special election. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 2010, was \$0.76000 per \$100 of assessed valuation.

Taxes are due by January 31 following the levy date. Tax collections, including related penalties and interest, are for the year ended September 30, 2010. Property taxes receivable at September 30, 2010, were \$628,143.

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 145,384
Other governmental funds	General fund	459,790
Other governmental funds	Other governmental funds	36,213
Debt service	General fund	15,465

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Changes in Capital Assets**

A summary of changes in capital assets for the primary government 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	\$ 1,148,540	\$ -	\$ -	\$ 1,148,540
Total assets not being depreciated	<u>1,148,540</u>	<u>-</u>	<u>-</u>	<u>1,148,540</u>
Capital assets, being depreciated:				
Buildings	7,853,196	-	-	7,853,196
Equipment	484,450	44,842	-	529,292
Vehicles	3,079,045	108,605	( 48,028)	3,139,622
Infrastructure	685,286	-	-	685,286
Total capital assets being depreciated	<u>12,101,977</u>	<u>153,447</u>	<u>( 48,028)</u>	<u>12,207,396</u>
Less accumulated depreciation:				
Buildings	( 2,047,728)	( 193,717)	-	( 2,241,445)
Equipment	( 393,998)	( 32,908)	-	( 426,906)
Vehicles	( 1,667,805)	( 166,348)	23,759	( 1,810,394)
Infrastructure	( 78,334)	( 34,264)	-	( 112,598)
Total accumulated depreciation	<u>( 4,187,865)</u>	<u>( 427,237)</u>	<u>23,759</u>	<u>( 4,591,343)</u>
Total capital assets being depreciated, net	<u>7,914,112</u>	<u>( 273,790)</u>	<u>( 24,269)</u>	<u>7,616,053</u>
Governmental activities capital assets, net	<u>\$ 9,062,652</u>	<u>\$ ( 273,790)</u>	<u>\$ ( 24,269)</u>	<u>\$ 8,764,593</u>

Depreciation expense was charged as direct expense to governmental activities as follows:

General government	\$ 171,996
Public safety	175,905
Public works	39,454
Culture and recreational	<u>39,882</u>
	<u>\$ 427,237</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Changes in Capital Assets** (Continued)

A summary of changes in capital assets for the component units follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Construction in progress	\$ 5,716,393	\$ 189,317	\$ -	\$ -	\$ 5,905,710
Governmental activities capital assets, net	\$ 5,716,393	\$ 189,317	\$ -	\$ -	\$ 5,905,710

**Employee Pension and Retirement Programs**

***Plan Description***

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on 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 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%
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, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Employee Pension and Retirement Programs** (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:

Annual Required Contribution (ARC)	\$ 866,045
Interest on Net Pension Obligation	15,947
Adjustment to the ARC	-
Annual Pension Cost	881,992
Contributions Made	( 709,193)
Increase (Decrease) in Net Pension Obligation	172,799
Net Pension Obligation/(Asset), beginning of year	<u>121,743</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 294,542</u>

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/08	\$ 469,726	\$ 469,726	100%	\$ -
09/30/09	743,951	622,208	83.6%	121,743
09/30/10	881,993	709,193	80.4%	294,542

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Employee Pension and Retirement Programs** (Continued)

***Contributions*** (Continued)

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/07	12/31/08	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
Remaining amortization period	30 years - closed	29 years - closed	28 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7%	7.5%	7.5%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2009	\$ 8,318,922	\$ 13,741,461	60.5%	\$ 5,422,539	\$ 6,151,392	88.2%

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.

**Leases**

**Capital Leases**

The government has acquired certain fixed assets for governmental activities through the use of lease purchases agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Leases** (Continued)

**Capital Leases** (Continued)

The assets acquired through capital leases are as follows:

	<u>Amount</u>
Governmental activities	
Assets:	
Police vehicles	\$ 341,909
Tractor	<u>143,428</u>
Total	<u>\$ 485,337</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2011	\$ 152,839
2012	98,966
2013	<u>10,984</u>
Total minimum lease payments	262,789
Less: amount representing interest	<u>17,466</u>
Present value of minimum lease payments	<u>\$ 245,323</u>

**Short-term Debt**

On May 30, 2008, the City of Balch Springs entered into an agreement with Prosperity Bank for a \$21,200, 7.75% line of credit. All funds borrowed during the year were used to buy two trucks.

Annual debt service requirements to maturity for promissory notes are to be paid within the year as described by the loan agreement.

(continued)



4. DETAILED NOTES ON ALL FUNDS (Continued)

**Long-term Liabilities**

The following is a summary of long-term liability transactions for the year ended September 30, 2010:

		Beginning Balance 09/30/09	Additions	Retirements	Ending Balance 09/30/10	Due Within One Year
<b>Long-term liabilities</b>						
<b>outstanding</b>						
Certificates of Obligation						
Series 2003	4.2-4.8%	\$ 4,905,000	\$ -	\$ -	\$ 4,905,000	\$ -
General Obligation						
Refunding Series 2003	4.0-4.7%	3,750,000	-	375,000	3,375,000	390,000
General Obligation Refunding						
Series 2007A	5.25%	125,000	-	125,000	-	-
General Obligation Refunding						
Series 2007B	7.25%	80,000	-	80,000	-	-
Leases payable		389,527	39,679	183,883	245,323	230,567
Accrued compensated absences		1,182,539	-	608,809	573,730	57,373
Net pension obligation		121,742	172,800	-	294,542	-
Total		<u>\$ 10,553,808</u>	<u>\$ 212,479</u>	<u>\$ 1,372,692</u>	<u>\$ 9,393,595</u>	<u>\$ 677,940</u>

Debt service requirements to amortize general long-term debt at September 30, 2010, are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2011	\$ 390,000	\$ 369,170	\$ 759,170
2012	405,000	353,570	758,570
2013	420,000	337,270	757,270
2014	435,000	320,570	755,570
2015	455,000	303,170	758,170
2016-2020	2,855,000	1,226,530	4,081,530
2021-2025	2,305,000	634,630	2,939,630
2026-2027	1,015,000	73,680	1,088,680
Total	<u>\$ 8,280,000</u>	<u>\$ 3,618,590</u>	<u>\$ 11,898,590</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Liabilities (Continued)**

Component units' debt is comprised of the following:

		Beginning Balance <u>09/30/09</u>	Additions	Retirements	Ending Balance <u>09/30/10</u>	Due Within One Year
Sales Tax Revenue Bonds	5.33%	\$ 1,410,000	\$ -	\$ 125,000	\$ 1,285,000	\$ 130,000
Total		<u>\$ 1,410,000</u>	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 1,285,000</u>	<u>\$ 130,000</u>

The annual requirements to amortize the long-term debt of the component units as of September 30, 2010, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 130,000	\$ 37,462	\$ 167,462
2012	140,000	59,640	199,640
2013	150,000	52,052	202,052
2014	155,000	44,064	199,064
2015-2018	<u>710,000</u>	<u>87,330</u>	<u>797,330</u>
Total	<u>\$ 1,285,000</u>	<u>\$ 280,548</u>	<u>\$ 1,565,548</u>

**Commitments and Contingencies**

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with their attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any material potential losses should an unfavorable outcome materialize.

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, employee health benefits; and other claims of various nature. The City purchases commercial insurance to indemnify it in event of loss.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**CITY OF BALCH SPRINGS, TEXAS**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR TMRS EMPLOYEE PENSION AND RETIREMENT PROGRAM**

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (1) (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/07	\$ 6,767,785	\$ 11,319,824	\$ 4,552,039	59.8%	\$ 4,894,463	93.0%
12/31/08	7,291,918	12,042,869	4,750,951	60.5%	5,728,400	82.9%
12/31/09	8,318,922	13,741,461	5,422,539	60.5%	6,151,392	88.2%

**CITY OF BALCH SPRINGS, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
General property taxes				
Current year taxes	\$ 4,079,759	\$ 4,079,759	\$ 4,093,091	\$ 13,332
Prior year taxes	85,000	85,000	95,409	10,409
Penalties and interest	<u>55,000</u>	<u>55,000</u>	<u>61,072</u>	<u>6,072</u>
Total general property taxes	<u>4,219,759</u>	<u>4,219,759</u>	<u>4,249,572</u>	<u>29,813</u>
 Intergovernmental revenues				
SRO reimbursement	30,000	30,000	35,756	5,756
CDBG reimbursement	<u>172,000</u>	<u>172,000</u>	<u>57,793</u>	( 114,207)
Total intergovernmental revenues	<u>202,000</u>	<u>202,000</u>	<u>93,549</u>	( 108,451)
 Licenses and permits				
Licenses and fees	108,000	108,000	188,948	80,948
Permits	<u>167,900</u>	<u>167,900</u>	<u>285,348</u>	<u>117,448</u>
Total licenses and permits	<u>275,900</u>	<u>275,900</u>	<u>474,296</u>	<u>198,396</u>
 Other				
Franchise taxes	935,000	935,000	872,352	( 62,648)
City sales tax	3,208,000	3,208,000	3,136,411	( 71,589)
Fines and warrants	1,050,000	1,050,000	905,634	( 144,366)
Interest earned	25,000	25,000	13,762	( 11,238)
Miscellaneous	<u>499,200</u>	<u>499,200</u>	<u>341,210</u>	( 157,990)
Total other	<u>5,717,200</u>	<u>5,717,200</u>	<u>5,269,369</u>	( 447,831)
 Total revenues	<u>10,414,859</u>	<u>10,414,859</u>	<u>10,086,786</u>	( 328,073)

(continued)

**CITY OF BALCH SPRINGS, TEXAS**

**GENERAL FUND**

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

**(Continued)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES</b>				
<b>GENERAL GOVERNMENT</b>				
Mayor and City council				
Mayor and council compensation	\$ 6,200	\$ 6,200	\$ 5,805	\$ 395
Supplies	200	200	164	36
Training	6,000	6,000	7,143	( 1,143)
Council contingency	100,000	100,000	34,263	65,737
Miscellaneous	9,500	9,500	6,915	2,585
Total mayor and City council	<u>121,900</u>	<u>121,900</u>	<u>54,290</u>	<u>67,610</u>
Administration				
Salaries	153,590	153,590	79,792	73,798
Contract services	1,500	1,500	-	1,500
Supplies	2,500	2,500	874	1,626
Training	1,500	1,500	306	1,194
Printing, dues and subscriptions	450	450	57	393
Total administration	<u>159,540</u>	<u>159,540</u>	<u>81,029</u>	<u>78,511</u>
City secretary				
Salaries	65,417	65,417	68,937	( 3,520)
Legal notices	4,000	4,000	1,214	2,786
Supplies	12,300	12,300	4,660	7,640
Repairs and maintenance	1,000	1,000	34	966
Training	1,500	1,500	1,507	( 7)
Election	25,000	25,000	8,816	16,184
Printing, dues and subscriptions	200	200	155	45
Total City secretary	<u>109,417</u>	<u>109,417</u>	<u>85,323</u>	<u>24,094</u>
Finance				
Salaries	154,052	154,052	161,015	( 6,963)
Contract services	58,700	58,700	57,902	798
Supplies	2,500	2,500	1,544	956
Repairs and maintenance	1,000	1,000	1,330	( 330)
Training	500	500	453	47
Printing, dues and subscriptions	100	100	60	40
Total finance	<u>216,852</u>	<u>216,852</u>	<u>222,304</u>	<u>( 5,452)</u>

**(continued)**

# CITY OF BALCH SPRINGS, TEXAS

## GENERAL FUND

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

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>GENERAL GOVERNMENT (Continued)</b>				
General government				
Salaries	\$ 1,132,106	\$ 1,132,106	\$ 1,118,432	\$ 13,674
Contract services	97,000	97,000	134,977	( 37,977)
Supplies	20,000	20,000	20,250	( 250)
Repairs and maintenance	24,000	24,000	29,939	( 5,939)
Printing, dues and subscriptions	9,000	9,000	8,320	680
Insurance	1,124,310	1,124,310	1,062,285	62,025
Utilities	405,000	405,000	515,928	( 110,928)
Data processing	15,000	15,000	19,215	( 4,215)
Total general government	<u>2,826,416</u>	<u>2,826,416</u>	<u>2,909,346</u>	<u>( 82,930)</u>
Total general government	<u>3,434,125</u>	<u>3,434,125</u>	<u>3,352,292</u>	<u>81,833</u>
<b>PUBLIC SAFETY</b>				
Police department				
Salaries	2,575,817	2,575,817	2,539,626	36,191
Contract services	60,040	60,040	32,241	27,799
Supplies	19,730	19,730	11,140	8,590
Repairs and maintenance	85,172	85,172	67,020	18,152
Training	9,500	9,500	5,211	4,289
Printing, dues and subscriptions	1,000	1,000	719	281
Jail	11,627	11,627	6,823	4,804
Miscellaneous	14,989	14,989	7,594	7,395
Total police department	<u>2,777,875</u>	<u>2,777,875</u>	<u>2,670,374</u>	<u>107,501</u>
Fire department				
Salaries	1,783,892	1,783,892	1,857,786	( 73,894)
Contract services	138,000	138,000	104,011	33,989
Supplies	13,000	13,000	9,079	3,921
Repairs and maintenance	76,000	76,000	57,098	18,902
Training	15,000	15,000	10,173	4,827
Miscellaneous	39,000	39,000	7,886	31,114
Printing, dues and subscriptions	4,800	4,800	3,568	1,232
Total fire department	<u>2,069,692</u>	<u>2,069,692</u>	<u>2,049,601</u>	<u>20,091</u>
Total public safety	<u>4,847,567</u>	<u>4,847,567</u>	<u>4,719,975</u>	<u>127,592</u>

(continued)



**CITY OF BALCH SPRINGS, TEXAS**

**GENERAL FUND**

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

**(Continued)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

EXPENDITURES (Continued)	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>PUBLIC WORKS</b>				
Public works department				
Salaries	\$ 755,821	\$ 755,821	\$ 756,853	\$( 1,032)
Contract services	90,000	90,000	47,736	42,264
Legal notices	2,000	2,000	199	1,801
Supplies	45,000	45,000	56,563	( 11,563)
Repairs and maintenance	137,500	137,500	190,564	( 53,064)
Training	4,500	4,500	1,324	3,176
Printing, dues and subscriptions	1,400	1,400	375	1,025
Street improvements	42,000	42,000	11,438	30,562
Parks projects	73,000	73,000	20,346	52,654
Oil and gas	160,000	160,000	146,178	13,822
Miscellaneous	116,000	116,000	31,011	84,989
Total public works department	<u>1,427,221</u>	<u>1,427,221</u>	<u>1,262,587</u>	<u>164,634</u>
 Total public works	 <u>1,427,221</u>	 <u>1,427,221</u>	 <u>1,262,587</u>	 <u>164,634</u>
<b>LEGAL</b>				
Municipal court				
Salaries	303,877	303,877	336,800	( 32,923)
Contract services	4,800	4,800	101,832	( 97,032)
Legal notices	83,800	83,800	-	83,800
Supplies	13,000	13,000	12,052	948
Repairs and maintenance	29,100	29,100	1,226	27,874
Printing, dues and subscriptions	100	100	74	26
Training	4,800	4,800	3,104	1,696
Miscellaneous	500	500	792	( 292)
Total municipal court	<u>439,977</u>	<u>439,977</u>	<u>455,880</u>	<u>( 15,903)</u>
 Total legal	 <u>439,977</u>	 <u>439,977</u>	 <u>455,880</u>	 <u>( 15,903)</u>

(continued)

**CITY OF BALCH SPRINGS, TEXAS**

**GENERAL FUND**

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

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>EXPENDITURES (Continued)</b>				
<b>CULTURE AND RECREATIONAL</b>				
Recreation center				
Salaries	\$ 142,394	\$ 142,394	\$ 130,814	\$ 11,580
Contract services	5,000	5,000	6,136	( 1,136)
Supplies	16,000	16,000	4,679	11,321
Repairs and maintenance	4,000	4,000	1,277	2,723
Recreation programs	17,000	17,000	1,770	15,230
Total recreation center	<u>184,394</u>	<u>184,394</u>	<u>144,676</u>	<u>39,718</u>
Library and learning center				
Salaries	162,669	162,669	143,055	19,614
Supplies	9,500	9,500	8,055	1,445
Repairs and maintenance	11,000	11,000	10,866	134
Training	1,500	1,500	1,394	106
Printing, dues and subscriptions	25,650	25,650	28,624	( 2,974)
Miscellaneous	2,000	2,000	1,064	936
Total library and learning center	<u>212,319</u>	<u>212,319</u>	<u>193,058</u>	<u>19,261</u>
Community center				
Salaries	62,055	62,055	62,017	38
Contract services	1,000	1,000	901	99
Supplies	700	700	-	700
Training	100	100	-	100
Printing, dues and subscriptions	100	100	-	100
Miscellaneous	3,000	3,000	1,064	1,936
Total library and learning center	<u>66,955</u>	<u>66,955</u>	<u>63,982</u>	<u>2,973</u>
Total culture and recreational	<u>463,668</u>	<u>463,668</u>	<u>401,716</u>	<u>61,952</u>
Debt service:				
Principal	-	-	139,678	( 139,678)
Interest and fees	-	-	23,117	( 23,117)
Total debt service	<u>-</u>	<u>-</u>	<u>162,795</u>	<u>( 162,795)</u>
Total expenditures	<u>10,612,558</u>	<u>10,612,558</u>	<u>10,355,245</u>	<u>257,313</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	-	-	3,000	3,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 197,699)</u>	<u>( 197,699)</u>	<u>( 265,459)</u>	<u>( 67,760)</u>
<b>FUND BALANCE, BEGINNING</b>	<u>864,117</u>	<u>864,117</u>	<u>864,117</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 666,418</u>	<u>\$ 666,418</u>	<u>\$ 598,658</u>	<u>\$ ( 67,760)</u>

CITY OF BALCH SPRINGS, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

Section 8 Housing Assistance Program	Law Enforcement	Justice Grant	PD Grant	PD Pass Through Grant	Library Donation	Municipal Court Technology	Municipal Court Building Security	Fire Department Donations
Cash and cash equivalents	\$ 1,016	\$ 51,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-	-	-	-
Receivables	-	2,143	-	-	-	-	-	-
Due from other funds	77,216	-	-	-	5,544	15,048	33,557	-
Total assets	\$ 78,232	\$ 53,261	\$ -	\$ -	\$ 5,544	\$ 15,048	\$ 33,557	\$ -

LIABILITIES AND FUND BALANCES

Liabilities:								
Accounts payable	\$ 15,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	12,551	41,768	-	-	-	-	-	-
Other payables	-	-	-	-	-	-	-	-
Total liabilities	27,706	41,768	-	-	-	-	-	-
Fund balances:								
Unreserved	99,311	11,493	-	-	5,544	15,048	33,557	-
Total fund balances	99,311	11,493	-	-	5,544	15,048	33,557	-
Total liabilities and fund balances	\$ 127,017	\$ 53,261	\$ -	\$ -	\$ 5,544	\$ 15,048	\$ 33,557	\$ -

(continued)

CITY OF BALCH SPRINGS, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2010

	Park Pro Rata	Hotel	Emergency Vehicle	Capital Improvement	Contractual Obligation	Youth Scholarship	Employee Fund	BCSPA Fund	Street Maintenance	Total Governmental Funds
<b>ASSETS</b>										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,586	\$ 568	\$ -	\$ 80,632
Investments	-	-	-	-	-	-	-	-	-	107,673
Receivables	-	6,128	-	-	-	-	-	-	117,851	126,122
Due from other funds	38	28,313	60,838	5,315	-	850	-	-	269,284	496,003
Total assets	38	\$ 34,441	\$ 60,838	\$ 5,315	\$ -	\$ 850	\$ 8,586	\$ 568	\$ 387,135	\$ 810,430

LIABILITIES AND FUND BALANCES

Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,155
Due to other funds	-	-	-	-	127,278	-	-	-	-	181,597
Other payables	-	-	-	-	-	-	-	-	-	22,577
Total liabilities	-	-	-	-	127,278	-	-	-	-	219,329
Fund balances:										
Unreserved	38	34,441	60,838	5,315	( 127,278)	850	8,586	568	387,135	591,101
Total fund balances	38	34,441	60,838	5,315	( 127,278)	850	8,586	568	387,135	591,101
Total liabilities and fund balances	38	\$ 34,441	\$ 60,838	\$ 5,315	\$ -	\$ 850	\$ 8,586	\$ 568	\$ 387,135	\$ 810,430

**CITY OF BALCH SPRINGS, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Section 8 Housing Assistance Program	Law Enforcement	Justice Grant	PD Grant	PD Pass Through Grant	Library Donation	Municipal Court Technology	Municipal Court Building Security	Fire Department Donations
<b>REVENUES</b>									
Hotel tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	-	-	-	-	-	-	-	-	-
Licenses and permits	39,159	-	-	-	-	-	23,980	17,987	-
Intergovernmental	286,592	-	-	82,639	38,334	-	-	-	-
Investment earnings	262	-	351	-	-	-	-	-	-
Miscellaneous	326,532	81,880	83,365	-	-	8,513	-	-	-
Total revenues	<u>652,545</u>	<u>81,880</u>	<u>83,716</u>	<u>82,639</u>	<u>38,334</u>	<u>8,513</u>	<u>23,980</u>	<u>17,987</u>	<u>-</u>
<b>EXPENDITURES</b>									
Current:									
General government	-	-	-	51,408	38,334	-	-	-	-
Public safety	-	38,792	37,880	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Legal	-	-	-	-	-	-	-	3,290	-
Culture and recreation	-	-	-	-	-	-	26,299	-	-
Community services	697,855	-	-	-	-	8,161	-	-	-
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	38,120	31,231	-	-	-	-	-
Total expenditures	<u>697,855</u>	<u>38,792</u>	<u>76,000</u>	<u>82,639</u>	<u>38,334</u>	<u>8,161</u>	<u>26,299</u>	<u>3,290</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 45,310)</u>	<u>43,088</u>	<u>7,716</u>	<u>-</u>	<u>-</u>	<u>352</u>	<u>( 2,319)</u>	<u>14,697</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Proceeds from capital leases	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	-	-	-	-	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 45,310)</u>	<u>43,088</u>	<u>7,716</u>	<u>-</u>	<u>-</u>	<u>352</u>	<u>( 2,319)</u>	<u>14,697</u>	<u>-</u>
<b>FUND BALANCES, BEGINNING</b>	<u>144,621</u>	<u>12,567</u>	<u>3,777</u>	<u>-</u>	<u>-</u>	<u>5,192</u>	<u>17,367</u>	<u>18,860</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 99,311</u>	<u>\$ 55,655</u>	<u>\$ 11,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,544</u>	<u>\$ 15,048</u>	<u>\$ 33,557</u>	<u>\$ -</u>

(continued)

**CITY OF BALCH SPRINGS, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Park Pro Rata	Hotel	Emergency Vehicle	Capital Improvement	Contractual Obligation	Youth Scholarship	Employee Fund	BCSPA Fund	Street Maintenance	Total Other Governmental Funds
<b>REVENUES</b>										
Hotel tax	\$ -	\$ 24,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,457
Sales and miscellaneous taxes	-	-	-	-	-	-	-	-	753,979	753,979
Licenses and permits	-	-	-	-	-	-	-	-	-	81,126
Intergovernmental	-	-	9,801	-	-	-	-	-	-	417,366
Investment earnings	-	-	-	-	-	-	-	-	-	613
Miscellaneous	-	-	62,460	-	-	500	5,709	-	-	568,959
Total revenues	-	24,457	72,261	-	-	500	5,709	-	753,979	1,846,500
<b>EXPENDITURES</b>										
Current:										
General government	-	-	-	-	-	-	5,756	-	123,279	218,777
Public safety	-	-	-	-	-	-	-	-	-	76,672
Public works	-	-	-	-	-	-	-	-	242,230	242,230
Legal	-	-	-	-	-	-	-	-	-	3,290
Culture and recreation	-	-	-	250	-	-	-	-	-	34,710
Community services	-	-	-	-	-	-	-	-	-	697,855
Debt service:										
Principal	-	-	44,205	-	-	-	-	-	-	44,205
Interest and other charges	-	-	5,410	-	-	-	-	-	-	5,410
Capital outlay	-	-	39,679	-	-	-	-	-	-	109,030
Total expenditures	-	-	89,294	250	-	-	5,756	-	365,509	1,432,179
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	24,457	( 17,033)	( 250)	-	500	( 47)	-	388,470	414,321
<b>OTHER FINANCING SOURCES (USES)</b>										
Proceeds from capital leases	-	-	39,679	-	-	-	-	-	-	39,679
Total other financing sources and uses	-	-	39,679	-	-	-	-	-	-	39,679
<b>NET CHANGE IN FUND BALANCES</b>	-	24,457	22,646	( 250)	-	500	( 47)	-	388,470	454,000
<b>FUND BALANCES, BEGINNING</b>	38	9,984	38,192	5,565	( 127,278)	350	8,633	568	( 1,335)	137,101
<b>FUND BALANCES, ENDING</b>	\$ 38	\$ 34,441	\$ 60,838	\$ 5,315	\$ ( 127,278)	\$ 850	\$ 8,586	\$ 568	\$ 387,135	\$ 591,101

**COMPLIANCE SECTION**

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PATTILLO, BROWN & HILL, T.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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 Balch Springs, Texas

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Balch Springs, Texas' basic financial statements and have issued our report thereon dated February 9, 2011. 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**

In planning and performing our audit, we considered City of Balch Springs, Texas' 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 an opinion on the effectiveness of City of Balch Springs, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Balch Springs, Texas' 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Balch Springs, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Pat Hills, Brown : Hill, L.L.P.

February 9, 2011