

**CITY OF  
BALCH SPRINGS, TEXAS**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**SEPTEMBER 30, 2011**



**CITY OF BALCH SPRINGS, TEXAS**

**TABLE OF CONTENTS**

**SEPTEMBER 30, 2011**

**Page  
Number**

**FINANCIAL SECTION**

Independent Auditors' Report.....	1 – 2
Management's Discussion and Analysis .....	3 – 8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets.....	9
Statement of Activities.....	10 – 11
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Notes to the Financial Statements.....	16 – 34

**(continued)**

**CITY OF BALCH SPRINGS, TEXAS**

**TABLE OF CONTENTS  
(Continued)  
SEPTEMBER 30, 2011**

	<b><u>Page Number</u></b>
<b>FINANCIAL SECTION (Continued)</b>	
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund.....	35 – 39
Combining and Individual Fund Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	40 – 41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	42 – 43
<b>COMPLIANCE SECTION</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	44 – 45
Schedule of Findings and Responses.....	46 – 50

**FINANCIAL SECTION**

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## 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, 2011, 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, 2011, 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 March 8, 2012, 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 35 through 39 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.

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

March 8, 2012



**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, 2011.

### FINANCIAL HIGHLIGHTS

- The City of Balch Springs increased its net assets at the close of the fiscal year ended September 30, 2011, by \$7,313,720.
- As of the close of the current fiscal year, the City of Balch Springs' governmental funds reported combined ending fund balances of \$1,738,901. Approximately 52% of this amount, \$413,128 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$413,128, or 4% 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 13 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 – 34 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 35 – 39 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 \$8,757,545 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, 2011.

### CITY OF BALCH SPRINGS' NET ASSETS

	Governmental Activities	
	2011	2010
Current and other assets	\$ 4,396,290	\$ 2,832,523
Capital assets	14,937,924	8,764,593
Total assets	<u>19,334,214</u>	<u>11,597,116</u>
Long-term liabilities	9,181,875	9,393,595
Other liabilities	1,394,794	759,696
Total liabilities	<u>10,576,669</u>	<u>10,153,291</u>
Net assets:		
Invested in capital assets, net of related debt	6,944,034	357,268
Restricted	1,255,517	152,442
Unrestricted	<u>557,994</u>	<u>934,115</u>
Total net assets	<u>\$ 8,757,545</u>	<u>\$ 1,443,825</u>

Overall, the City's net assets increased by \$7,313,720 during the year ended September 30, 2011. The following table presents a summary of the City's operations for the year ended September 30, 2011:

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

	Governmental Activities	
	2011	2010
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 2,917,255	\$ 2,016,831
Operating grants and contributions	1,060,562	946,716
Capital grants and contributions	5,932,018	-
General revenues:		
Ad valorem taxes	5,081,095	5,204,051
Franchise, sales and other taxes	5,014,033	4,762,742
Interest income	13,231	15,242
Total revenues	<u>20,018,194</u>	<u>12,945,582</u>
<b>EXPENSES</b>		
General government	3,585,210	3,683,281
Public safety	5,576,221	4,629,158
Public works	1,588,945	1,626,510
Legal	506,995	480,063
Cultural and recreation	410,649	417,489
Community services	662,091	699,246
Interest on long-term debt	374,363	414,243
Total expenses	<u>12,704,474</u>	<u>11,949,990</u>
<b>CHANGE IN NET ASSETS</b>	7,313,720	995,592
<b>NET ASSETS, BEGINNING</b>	<u>1,443,825</u>	<u>448,233</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 8,757,545</u>	<u>\$ 1,443,825</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 \$1,738,901, an increase of \$326,954 in comparison with the prior year. Approximately 52% of this total amount, \$413,128, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance, \$1,236,432, is restricted for debt service, the Section 8 Housing Program, street maintenance, municipal court, public safety, culture and recreation, economic development, the Red Flex Program, or assigned for capital acquisition and construction.

The General Fund is the chief operating fund of the City of Balch Springs. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$413,128. 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 4% 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, 2011:

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

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues	\$ 10,802,775	\$ 11,180,591	\$ 377,816
Expenditures	10,818,075	10,804,962	13,113
Other financing sources	<u>-</u>	<u>( 69,949)</u>	<u>( 69,949)</u>
Change in fund balance	<u>\$( 15,300)</u>	<u>\$ 305,680</u>	<u>\$ 320,980</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$14,937,924 (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 infrastructure. Construction in progress is for a substantial expansion/reconstruction of a major thoroughfare. The Beltline Road Round About project was completed in 2011. The project adds a total of \$5,910,470 to the City infrastructure.

**Long-term debt.** At the end of the current fiscal year, the City of Balch Springs had total debt outstanding of \$9,181,875. The following table presents a summary of the City's long-term debt as of September 30, 2011:

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

	Governmental Activities	
	2011	2010
Certificates of obligation	\$ 4,905,000	\$ 4,905,000
General obligation refunding bonds	2,985,000	3,375,000
Leases payable	103,890	245,323
Accrued compensated absences	759,376	573,730
Net pension obligation	428,609	294,542
	\$ 9,181,875	\$ 9,393,595

The City of Balch Springs' total debt decreased by \$211,720 during the current fiscal year. Please see the note disclosure on pages 31 – 34 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 repair streets as well as purchase equipment and supplies for the repairs, and fund positions.

The total property tax rate includes debt service and is .78 per \$100 of value, which is the effective rate. The effective tax rate provides the City with approximately the same amount of revenue it had in the prior fiscal year (FY 2010-11) with a tax rate of .76 per \$100 of value. The average taxable rate for residential property has dropped from \$65,734 in 2009 to \$58,339 in 2011.

The City's 2011-2012 operating budget reflects an increase in expenditures of \$281,572 which is less than 3%. The increase is due to the rising cost of employee benefits, vehicle fuel and contractual services. All civilian employees within in the city received a 5% pay raise for the first time in several years. The Public Works Director position previously frozen will be released in June, 2012.

**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, 2011**

	Primary Government	Component Units	
	Governmental Activities	Balch Springs Industrial and Economic Development Corporation	Balch Springs Community and Economic Development Corporation
<b>ASSETS</b>			
Cash and equivalents	\$ 860,808	\$ -	\$ -
Investments	1,369,807	1,756,125	410,902
Receivables (net of allowances for uncollectible)	2,049,526	116,059	116,059
Due from other governments	22,114	-	-
Due from component unit	4,694	-	-
Due from primary government	-	-	7,640
Prepaid expenses	89,341	-	-
Deferred charges	-	-	58,625
Capital assets:			
Land	1,148,540	-	-
Buildings	7,853,196	-	-
Equipment	577,809	-	-
Vehicles	3,286,405	-	-
Infrastructure	7,328,100	-	-
Construction in progress	-	21,135	27,936
Less: accumulated depreciation	( 5,256,126)	-	-
Total capital assets	<u>14,937,924</u>	<u>21,135</u>	<u>27,936</u>
Total assets	<u>19,334,214</u>	<u>1,893,319</u>	<u>621,162</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Cash overdraft	-	112,529	5,817
Accounts payable	397,934	2,598	-
Accrued liabilities	681,541	-	-
Accrued interest payable	61,273	-	4,268
Due to component unit	7,640	-	-
Due to primary government	-	4,694	-
Due to other governments	122,761	-	-
Unearned revenue	7,531	-	-
Other liabilities	116,114	-	-
Long-term liabilities:			
Due within one year	574,585	-	145,000
Due in more than one year	8,607,290	-	960,000
Total liabilities	<u>10,576,669</u>	<u>119,821</u>	<u>1,115,085</u>
Net assets:			
Invested in capital assets, net of related debt	6,944,034	21,135	( 1,077,064)
Restricted for:			
Debt service	167,058	-	-
Housing program	186,755	-	-
Street maintenance	301,785	-	-
Municipal court	76,013	-	-
Public safety	166,787	-	-
Culture and recreation	13,188	-	-
Economic development	53,983	1,752,363	583,141
Red Flex Program	289,948	-	-
Unrestricted	<u>557,994</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 8,757,545</u>	<u>\$ 1,773,498</u>	<u>\$( 493,923)</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, 2011**

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>			
Governmental activities:			
General government	\$ 3,585,210	\$ 449,466	\$ -
Public safety	5,576,221	1,884,954	74,551
Public works	1,588,945	406,111	-
Legal	506,995	83,403	-
Culture and recreation	410,649	93,321	14,572
Community services	662,091	-	971,439
Interest on long-term debt	374,363	-	-
	<u>\$ 12,704,474</u>	<u>\$ 2,917,255</u>	<u>\$ 1,060,562</u>
Total governmental activities	<u>\$ 12,704,474</u>	<u>\$ 2,917,255</u>	<u>\$ 1,060,562</u>
<b>Component units</b>			
Balch Springs Industrial and Economic Development Corporation:			
Economic development	\$ 3,870,656	\$ -	\$ -
Total Balch Springs Industrial and Economic Development Corporation	<u>3,870,656</u>	<u>-</u>	<u>-</u>
Balch Springs Community and Economic Development Corporation:			
Economic development	3,571,612	-	-
Interest on long-term debt	53,446	-	-
Total Balch Springs Community and Economic Development Corporation	<u>3,625,058</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 7,495,714</u>	<u>\$ -</u>	<u>\$ -</u>
<b>General revenues:</b>			
Taxes:			
Property taxes			
Franchise, sales, and other			
Interest income			
Miscellaneous			
Special item - gain on sale of asset			
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
\$( 3,135,744)	\$ -	\$ -
( 3,595,168)	-	-
4,727,636	-	-
( 423,592)	-	-
( 302,756)	-	-
309,348	-	-
( 374,363)	-	-
<u>( 2,794,639)</u>	<u>-</u>	<u>-</u>
-	( 3,870,656)	-
-	( 3,870,656)	-
-	-	( 3,571,612)
-	-	( 53,446)
-	-	( 3,625,058)
-	( 3,870,656)	( 3,625,058)
5,081,095	-	-
5,014,033	903,415	672,811
13,231	8,039	2,950
-	-	7,162
-	-	-
<u>10,108,359</u>	<u>911,454</u>	<u>682,923</u>
7,313,720	( 2,959,202)	( 2,942,135)
<u>1,443,825</u>	<u>4,732,700</u>	<u>2,448,212</u>
<u>\$ 8,757,545</u>	<u>\$ 1,773,498</u>	<u>\$( 493,923)</u>

**CITY OF BALCH SPRINGS, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	General	Debt Service	Section 8 Housing Assistance Program	Other Governmental	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,847	\$ 795,017	\$ 37,421	\$ 26,523	\$ 860,808
Investments	1,166,101	68,526	107,811	27,369	1,369,807
Receivables	1,815,104	112,593	-	121,829	2,049,526
Due from other governments	22,114	-	-	-	22,114
Due from component unit	4,694	-	-	-	4,694
Due from other funds	763,351	-	56,678	560,486	1,380,515
Prepaid expenditures	89,341	-	-	-	89,341
Total assets	<u>3,862,552</u>	<u>976,136</u>	<u>201,910</u>	<u>736,207</u>	<u>5,776,805</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	309,545	-	15,155	73,234	397,934
Accrued liabilities	681,541	-	-	-	681,541
Due to other governments	122,761	-	-	-	122,761
Due to component unit	7,640	-	-	-	7,640
Due to other funds	617,164	747,805	-	15,546	1,380,515
Deferred revenue	1,215,370	108,498	-	7,531	1,331,399
Other liabilities	116,114	-	-	-	116,114
Total liabilities	<u>3,070,135</u>	<u>856,303</u>	<u>15,155</u>	<u>96,311</u>	<u>4,037,904</u>
Fund balances:					
Nonspendable - prepaid items	89,341	-	-	-	89,341
Restricted for:					
Debt Service	-	119,833	-	-	119,833
Housing program	-	-	186,755	-	186,755
Street maintenance	-	-	-	301,785	301,785
Municipal court	-	-	-	76,013	76,013
Public safety	-	-	-	166,787	166,787
Culture and recreation	-	-	-	13,188	13,188
Economic development	-	-	-	53,983	53,983
Red Flex Program	289,948	-	-	-	289,948
Assigned for:					
Capital acquisition and construction	-	-	-	28,140	28,140
Unassigned	413,128	-	-	-	413,128
Total fund balances	<u>792,417</u>	<u>119,833</u>	<u>186,755</u>	<u>639,896</u>	<u>1,738,901</u>
Total liabilities and fund balances	<u>\$ 3,862,552</u>	<u>\$ 976,136</u>	<u>\$ 201,910</u>	<u>\$ 736,207</u>	<u>\$ 5,776,805</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, 2011**

Total fund balance, governmental funds	\$ 1,738,901
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.	14,937,924
Certain other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	1,323,868
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	( 9,243,148)
Net Assets of governmental activities in the Statement of Net Assets	\$ <u>8,757,545</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, 2011**

	<u>General</u>	<u>Debt Service</u>	<u>Section 8 Housing Assistance Program</u>	<u>Other Governmental</u>	<u>Total</u>
<b>REVENUES</b>					
Taxes:					
Ad valorem	\$ 4,189,193	\$ 776,660	\$ -	\$ -	\$ 4,965,853
Franchise, sales, and other	4,321,680	-	-	692,353	5,014,033
Licenses and permits	429,406	-	-	-	429,406
Fines and fees	1,414,414	-	-	49,375	1,463,789
Intergovernmental	664,521	-	679,421	38,703	1,382,645
Interest income	10,596	2,253	165	217	13,231
Miscellaneous	<u>150,781</u>	<u>-</u>	<u>-</u>	<u>99,606</u>	<u>250,387</u>
Total revenues	<u>11,180,591</u>	<u>778,913</u>	<u>679,586</u>	<u>880,254</u>	<u>13,519,344</u>
<b>EXPENDITURES</b>					
General government	3,413,413	-	-	-	3,413,413
Public safety	5,103,828	-	-	35,483	5,139,311
Public works	1,363,978	-	-	99,215	1,463,193
Legal	431,588	-	-	21,355	452,943
Culture and recreation	388,931	-	-	6,928	395,859
Community service	-	-	662,091	-	662,091
Debt service:					
Principal	97,223	390,000	-	44,210	531,433
Interest and fees	6,001	373,270	-	5,405	384,676
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>749,471</u>	<u>749,471</u>
Total expenditures	<u>10,804,962</u>	<u>763,270</u>	<u>662,091</u>	<u>962,067</u>	<u>13,192,390</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	<u>375,629</u>	<u>15,643</u>	<u>17,495</u>	<u>( 81,813)</u>	<u>326,954</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer in	-	-	69,949	-	69,949
Transfer out	<u>( 69,949)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 69,949)</u>
Total other financing sources and uses	<u>( 69,949)</u>	<u>-</u>	<u>69,949</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	305,680	15,643	87,444	( 81,813)	326,954
<b>FUND BALANCES, BEGINNING</b>	<u>486,737</u>	<u>104,190</u>	<u>99,311</u>	<u>721,709</u>	<u>1,411,947</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 792,417</u>	<u>\$ 119,833</u>	<u>\$ 186,755</u>	<u>\$ 639,896</u>	<u>\$ 1,738,901</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, 2011**

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

Net change in fund balances - total governmental funds	\$ 326,954
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.	6,197,901
The net effect of various miscellaneous transactions involving capital assets (i.e sales, trade-ins, gains and losses) to decrease net assets.	( 24,570)
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. 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.	531,433
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.	591,402
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.	( 309,400)
Change in net assets of governmental activities	\$ <u>7,313,720</u>

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

# CITY OF BALCH SPRINGS, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### 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 ***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.

The ***Section 8 Housing Assistance Program Fund*** is used to account for the revenues and expenditures of the federal Section 8 Housing Program that the City operates.

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, 2011.

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, 2011, the liability for accrued compensated absences is approximately \$759,376. 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 Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications (Continued)

**Fund Balance Classification** (Continued)

- Assigned: This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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 \$(9,243,148) difference are as follows:

Serial bonds and certificates of obligation	\$( 7,890,000)
Accrued interest payable	( 61,273)
Compensated absences	( 759,376)
Leases payable	( 103,890)
Net pension obligation	<u>( 428,609)</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$( <u>9,243,148</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 \$6,197,901 difference are as follows:

Capital outlay	\$ 6,931,342
Depreciation expense	( 733,441)
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>	\$ 6,197,901

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 \$531,433 difference are as follows:

Principal payments	\$ 390,000
Capital lease financing	141,433
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>	\$ 531,433

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.

#### 4. DETAILED NOTES ON ALL FUNDS

##### Deposits and Investments

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
City:		
TexPool	\$ 224,586	48
LOGIC	9,454	46
Prosperity Bank	1,135,747	1
MBIA	20	36
Balch Springs Industrial and Economic Development Corporation:		
TexPool	50,132	48
Prosperity	1,705,993	1
Balch Springs Community and Economic Development Corporation:		
TexPool	50,089	48
Prosperity	360,813	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, 2011, the City's deposit balance was fully collateralized with securities held by the pledging financial institution and 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	\$ 1,216,489	\$ 116,075	\$ 121,829	\$ 1,454,393
Due from other governments	22,114	-	-	22,114
Court fines and fees	2,059,002	-	-	2,059,002
Gross receivables	3,297,605	116,075	121,829	3,535,509
Less: allowance for uncollectibles	( 1,460,387)	( 3,482)	-	( 1,463,869)
Net total receivables	\$ 1,837,218	\$ 112,593	\$ 121,829	\$ 2,071,640

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	Unearned
General fund		
Taxes	\$ 597,669	\$ -
Court fines and fees	617,701	-
Total general fund	1,215,370	-
Debt service fund		
Taxes	108,498	-
Total debt service fund	108,498	-
Other governmental		
Advanced grant funds	-	7,531
Total other governmental	-	7,531
Total governmental funds	\$ 1,323,868	\$ 7,531

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 2011 levy was based, was \$650,852,857.

(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, 2011, was \$0.76 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, 2011. Property taxes receivable at September 30, 2011, were \$752,271.

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Debt service	\$ 747,805
General fund	Other governmental funds	15,546
Section 8 Housing Program	General fund	56,678
Other governmental funds	General fund	<u>560,486</u>
		\$ <u>1,380,515</u>

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	529,292	48,517	-	577,809
Vehicles	3,139,622	240,011	( 93,228)	3,286,405
Infrastructure	685,286	6,642,814	-	7,328,100
Total capital assets being depreciated	<u>12,207,396</u>	<u>6,931,342</u>	<u>( 93,228)</u>	<u>19,045,510</u>
Less accumulated depreciation:				
Buildings	( 2,241,445)	( 193,717)	-	( 2,435,162)
Equipment	( 426,906)	( 16,026)	-	( 442,932)
Vehicles	( 1,810,394)	( 305,055)	68,658	( 2,046,791)
Infrastructure	( 112,598)	( 218,643)	-	( 331,241)
Total accumulated depreciation	<u>( 4,591,343)</u>	<u>( 733,441)</u>	<u>68,658</u>	<u>( 5,256,126)</u>
Total capital assets being depreciated, net	<u>7,616,053</u>	<u>6,197,901</u>	<u>( 24,570)</u>	<u>13,789,384</u>
Governmental activities capital assets, net	<u>\$ 8,764,593</u>	<u>\$ 6,197,901</u>	<u>\$( 24,570)</u>	<u>\$ 14,937,924</u>

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

General government	\$ 358,510
Public safety	243,283
Public works	92,426
Culture and recreational	<u>39,222</u>
	<u>\$ 733,441</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>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>5,905,710</u>	\$ <u>53,831</u>	\$( <u>5,910,470</u> )	\$ <u>49,071</u>
Governmental activities capital assets, net	\$ <u>5,905,710</u>	\$ <u>53,831</u>	\$( <u>5,910,470</u> )	\$ <u>49,071</u>

**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 2011</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)	\$ 902,154
Interest on Net Pension Obligation	22,091
Adjustment to the ARC	( 18,244)
Annual Pension Cost	906,001
Contributions Made	( 771,934)
Increase (Decrease) in Net Pension Obligation	134,067
Net Pension Obligation/(Asset), beginning of year	<u>294,542</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 428,609</u>

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/09	\$ 743,951	\$ 622,208	83.6%	\$ 121,743
09/30/10	881,993	709,193	80.4%	294,542
09/30/11	906,001	771,934	85.2%	428,609

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

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

**Contributions** (Continued)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation date	12/31/08	12/31/09	12/31/10 - prior to restructuring	12/31/2010 - restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	29.0 years; closed period	28.2 years; closed period	27.3 years; closed period	27.3 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-yr. smoothed market	10-yr. smoothed market	10-yr. smoothed market
Actuarial Assumptions:				
Investment rate of return*	7.5%	7.5%	7.5%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%	2.1%

**Funding Status and Funding Progress**

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

The funded status as of December 31, 2010, 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
12/31/2008	\$ 7,291,918	\$ 12,042,869	60.5%	\$ 4,750,951	\$ 5,728,400	82.9%
12/31/2009	8,318,922	13,741,461	60.5%	5,422,539	6,151,392	88.2%
12/31/2010 <sup>(1)</sup>	8,587,612	14,294,567	60.1%	5,706,955	6,393,253	89.3%
12/31/2010 <sup>(2)</sup>	12,607,678	18,315,620	68.8%	5,707,942	6,393,253	89.3%

<sup>(1)</sup> Actuarial valuation performed under the original fund structure

<sup>(2)</sup> Actuarial valuation performed under the new fund structure

(continued)



4. DETAILED NOTES ON ALL FUNDS (Continued)

**Other Post Employment Benefits**

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

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

**Contributions**

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

**Schedule of Contribution Rates**

(Retiree-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.04%	0.04%	100%
2010	0.03%	0.03%	100%
2011	0.03%	0.03%	100%

**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 leases 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, 2011, were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2012	\$ 98,966
2013	<u>10,984</u>
Total minimum lease payments	109,950
Less: amount representing interest	<u>6,060</u>
Present value of minimum lease payments	<u>\$ 103,890</u>

Long-term Liabilities

The following is a summary of long-term liability transactions for the year ended September 30, 2011:

	<u>Beginning Balance 09/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance 09/30/11</u>	<u>Due Within One Year</u>
<b>Long-term liabilities 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% 3,375,000	-	390,000	2,985,000	405,000
Leases payable	245,323	-	141,433	103,890	93,647
Accrued compensated absences	573,730	185,646	-	759,376	75,938
Net pension obligation	<u>294,542</u>	<u>134,067</u>	<u>-</u>	<u>428,609</u>	<u>-</u>
Total	<u>\$ 9,393,595</u>	<u>\$ 319,713</u>	<u>\$ 531,433</u>	<u>\$ 9,181,875</u>	<u>\$ 574,585</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

Debt service requirements to amortize general long-term debt at September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 405,000	\$ 353,570	\$ 758,570
2013	420,000	337,370	757,370
2014	435,000	320,570	755,570
2015	455,000	303,170	758,170
2016	440,000	284,515	724,515
2017-2021	2,475,000	1,121,835	3,596,835
2022-2026	2,740,000	503,530	3,243,530
2027	520,000	24,960	544,960
Total	<u>\$ 7,890,000</u>	<u>\$ 3,249,520</u>	<u>\$ 11,139,520</u>

Component units' debt is comprised of the following:

		<u>Beginning Balance 09/30/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance 09/30/11</u>	<u>Due Within One Year</u>
Sales Tax Revenue Bonds	5.33%	\$ 1,285,000	\$ -	\$ -	\$ 1,285,000	\$ -
Sales Tax Revenue Refunding Bonds Series 2C	3.09%	-	1,175,000	70,000	1,105,000	145,000
Total		<u>\$ 1,285,000</u>	<u>\$ 1,175,000</u>	<u>\$ 70,000</u>	<u>\$ 2,390,000</u>	<u>\$ 145,000</u>

The annual requirements to amortize the long-term debt of the component units as of September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 145,000	\$ 32,986	\$ 177,986
2013	150,000	28,583	178,583
2014	150,000	23,870	173,870
2015	160,000	19,158	179,158
2016	165,000	14,137	179,137
2017-2018	335,000	12,978	347,978
Total	<u>\$ 1,105,000</u>	<u>\$ 131,712</u>	<u>\$ 1,236,712</u>

(continued)

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

##### **Bond Refunding**

On March 17, 2011, the Balch Springs Community and Economic Development Corporation issued \$1,175,000 of Sales Tax Revenue Refunding Bonds. The net proceeds from the issuance of the bonds were used to purchase U. S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments. A deposit of \$1,232,055 was made to the escrow account to provide for the current refunding of \$1,220,000 of the Series 2003 Sales Tax Revenue Bonds. The current refunded bonds are considered legally defeased and the liability for these bonds has been removed. The reacquisition price exceeded the net carrying amount of the old debt by \$12,055. The Balch Springs Community and Economic Development Corporation refunded the bonds to reduce its total debt service payments by \$134,059 and to obtain an economic gain of \$40,956 (present value). The book loss on this refunding was \$12,055.

##### **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.

##### **Change in Accounting Principles**

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes				
Current year taxes	\$ 3,973,948	\$ 3,973,948	\$ 3,976,777	\$ 2,829
Prior year taxes	85,000	85,000	145,617	60,617
Penalties and interest	<u>55,000</u>	<u>55,000</u>	<u>66,799</u>	<u>11,799</u>
Total general property taxes	<u>4,113,948</u>	<u>4,113,948</u>	<u>4,189,193</u>	<u>75,245</u>
Intergovernmental revenues				
SRO reimbursement	30,000	30,000	35,848	5,848
CDBG reimbursement	172,000	172,000	84,266	( 87,734)
Other intergovernmental	<u>928,871</u>	<u>928,871</u>	<u>544,407</u>	<u>( 384,464)</u>
Total intergovernmental revenues	<u>1,130,871</u>	<u>1,130,871</u>	<u>664,521</u>	<u>( 466,350)</u>
Other				
Franchise taxes	900,000	900,000	951,898	51,898
Licenses and permits	204,000	204,000	429,406	225,406
City sales tax	3,250,000	3,250,000	3,369,782	119,782
Fines and fees	1,092,200	1,092,200	1,414,414	322,214
Interest earned	12,000	12,000	10,596	( 1,404)
Miscellaneous	<u>99,756</u>	<u>99,756</u>	<u>150,781</u>	<u>51,025</u>
Total other	<u>5,557,956</u>	<u>5,557,956</u>	<u>6,326,877</u>	<u>768,921</u>
Total revenues	<u>10,802,775</u>	<u>10,802,775</u>	<u>11,180,591</u>	<u>377,816</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, 2011**

	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	\$ 5,575	\$ 625
Supplies	200	200	126	74
Training	10,000	10,000	11,105	( 1,105)
Council contingency	57,679	57,679	21,058	36,621
Miscellaneous	16,168	16,168	3,427	12,741
Total mayor and City council	90,247	90,247	41,291	48,956
Administration				
Salaries	121,460	121,460	75,366	46,094
Contract services	1,500	1,500	81	1,419
Supplies	2,000	2,000	941	1,059
Travel	-	-	29	( 29)
Meals and lodging	-	-	1,356	( 1,356)
Training	1,500	1,500	1,674	( 174)
Legal notices	-	-	5	( 5)
Total administration	126,460	126,460	79,452	47,008
City secretary				
Salaries	65,609	65,609	65,447	162
Legal notices	2,500	2,500	226	2,274
Supplies	7,200	7,200	2,751	4,449
Repairs and maintenance	1,000	1,000	320	680
Training	1,500	1,500	1,577	( 77)
Election	18,000	18,000	22,288	( 4,288)
Printing, dues and subscriptions	100	100	135	( 35)
Miscellaneous	-	-	540	( 540)
Total City secretary	95,909	95,909	93,284	2,625
Finance				
Salaries	122,977	122,977	116,384	6,593
Contract services	68,000	68,000	49,079	18,921
Supplies	2,500	2,500	1,033	1,467
Travel	-	-	152	( 152)
Minor Equipment	1,000	1,000	596	404
Training	1,000	1,000	514	486
Printing, dues and subscriptions	100	100	60	40
Total finance	195,577	195,577	167,818	27,759

**(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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>GENERAL GOVERNMENT (Continued)</b>				
General government				
Salaries	\$ 1,237,975	\$ 1,237,975	\$ 1,221,814	\$ 16,161
Contract services	102,000	102,000	118,604	( 16,604)
Supplies	20,000	20,000	33,896	( 13,896)
Repairs and maintenance	25,000	25,000	24,837	163
Printing, dues and subscriptions	4,000	4,000	5,818	( 1,818)
Insurance	1,120,352	1,120,352	1,140,962	( 20,610)
Utilities	408,000	408,000	452,191	( 44,191)
Data processing	15,000	15,000	17,478	( 2,478)
Miscellaneous	3,000	3,000	15,968	( 12,968)
Total general government	<u>2,935,327</u>	<u>2,935,327</u>	<u>3,031,568</u>	<u>( 96,241)</u>
Total general government	<u>3,443,520</u>	<u>3,443,520</u>	<u>3,413,413</u>	<u>30,107</u>
<b>PUBLIC SAFETY</b>				
Police department				
Salaries	2,807,110	2,807,110	2,683,445	123,665
Contract services	35,900	35,900	33,545	2,355
Supplies	24,600	24,600	18,052	6,548
Repairs and maintenance	57,400	57,400	41,095	16,305
Training	5,000	5,000	2,904	2,096
Printing, dues and subscriptions	600	600	594	6
Jail	10,900	10,900	12,315	( 1,415)
Travel	1,500	1,500	1,020	480
Meals and lodging	1,000	1,000	628	372
Minor equipment	48,200	48,200	72,791	( 24,591)
Miscellaneous	13,400	13,400	9,895	3,505
Total police department	<u>3,005,610</u>	<u>3,005,610</u>	<u>2,876,284</u>	<u>129,326</u>
Fire department				
Salaries	1,915,459	1,915,459	2,024,675	( 109,216)
Contract services	112,400	112,400	105,319	7,081
Supplies	13,000	13,000	5,760	7,240
Repairs and maintenance	66,000	66,000	57,614	8,386
Minor equipment	25,000	25,000	19,210	5,790
Training	10,000	10,000	7,669	2,331
Printing, dues and subscriptions	2,000	2,000	1,803	197
Miscellaneous	13,000	13,000	5,494	7,506
Total fire department	<u>2,156,859</u>	<u>2,156,859</u>	<u>2,227,544</u>	<u>( 70,685)</u>
Total public safety	<u>5,162,469</u>	<u>5,162,469</u>	<u>5,103,828</u>	<u>58,641</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, 2011**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>PUBLIC WORKS</b>				
Public works department				
Salaries	\$ 687,063	\$ 687,063	\$ 653,718	\$ 33,345
Contract services	55,000	55,000	117,466	( 62,466)
Legal notices	2,000	2,000	528	1,472
Supplies	45,000	45,000	43,292	1,708
Repairs and maintenance	185,500	185,500	252,537	( 67,037)
Training	3,000	3,000	1,850	1,150
Printing, dues and subscriptions	800	800	638	162
Travel	1,000	1,000	499	501
Meals and lodging	500	500	725	( 225)
Minor equipment	10,000	10,000	8,989	1,011
Parks projects	25,000	25,000	17,052	7,948
Oil and gas	160,000	160,000	207,223	( 47,223)
Miscellaneous	43,200	43,200	59,461	( 16,261)
Total public works department	<u>1,218,063</u>	<u>1,218,063</u>	<u>1,363,978</u>	<u>( 145,915)</u>
Total public works	<u>1,218,063</u>	<u>1,218,063</u>	<u>1,363,978</u>	<u>( 145,915)</u>
<b>LEGAL</b>				
Municipal court				
Salaries	295,025	295,025	324,818	( 29,793)
Contract services	95,000	95,000	90,807	4,193
Supplies	10,000	10,000	9,915	85
Repairs and maintenance	1,500	1,500	108	1,392
Printing, dues and subscriptions	1,100	1,100	290	810
Training	3,000	3,000	2,342	658
Travel	1,500	1,500	509	991
Meals and lodging	1,500	1,500	1,297	203
Minor equipment	2,000	2,000	1,098	902
Miscellaneous	1,500	1,500	404	1,096
Total municipal court	<u>412,125</u>	<u>412,125</u>	<u>431,588</u>	<u>( 19,463)</u>
Total legal	<u>412,125</u>	<u>412,125</u>	<u>431,588</u>	<u>( 19,463)</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, 2011

EXPENDITURES (Continued)	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>CULTURE AND RECREATIONAL</b>				
Recreation center				
Salaries	\$ 127,414	\$ 127,414	\$ 132,324	\$( 4,910)
Contract services	5,000	5,000	1,180	3,820
Supplies	11,000	11,000	5,316	5,684
Minor equipment	2,000	2,000	1,792	208
Recreation programs	9,000	9,000	507	8,493
Total recreation center	154,414	154,414	141,119	13,295
Library and learning center				
Salaries	153,840	153,840	144,512	9,328
Supplies	23,823	23,823	24,726	( 903)
Repairs and maintenance	8,000	8,000	12,619	( 4,619)
Training	1,250	1,250	1,307	( 57)
Printing, dues and subscriptions	400	400	312	88
Minor equipment	-	-	197	( 197)
Miscellaneous	1,000	1,000	1,550	( 550)
Total library and learning center	188,313	188,313	185,223	3,090
Community center				
Salaries	62,171	62,171	61,768	403
Contract services	1,000	1,000	552	448
Supplies	400	400	125	275
Meals and lodging	3,000	3,000	144	2,856
Total library and learning center	66,571	66,571	62,589	3,982
Total culture and recreational	409,298	409,298	388,931	20,367
Debt service:				
Principal	172,600	172,600	97,223	75,377
Interest and fees	-	-	6,001	( 6,001)
Total debt service	172,600	172,600	103,224	69,376
Total expenditures	10,818,075	10,818,075	10,804,962	13,113
<b>OTHER FINANCING SOURCES</b>				
Transfer out	-	-	( 69,949)	( 69,949)
Total other financing sources	-	-	( 69,949)	( 69,949)
<b>NET CHANGE IN FUND BALANCE</b>	( 15,300)	( 15,300)	305,680	320,980
<b>FUND BALANCE, BEGINNING</b>	486,737	486,737	486,737	-
<b>FUND BALANCE, ENDING</b>	\$ 471,437	\$ 471,437	\$ 792,417	\$ 320,980

**CITY OF BALCH SPRINGS, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2011**

	Special Revenue			
	Law Enforcement	Justice Grant	Department of Justice Equitable Sharing	Library Donation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,016	\$ 8,148	\$ 8,062	\$ -
Investments	-	-	-	-
Receivables	-	-	-	-
Due from other funds	<u>56,377</u>	<u>4,741</u>	<u>-</u>	<u>13,188</u>
Total assets	<u>\$ 57,393</u>	<u>\$ 12,889</u>	<u>\$ 8,062</u>	<u>\$ 13,188</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	7,020	-
Deferred revenue	<u>-</u>	<u>7,531</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>7,531</u>	<u>7,020</u>	<u>-</u>
Fund balances:				
Restricted for:				
Street maintenance	-	-	-	-
Municipal court	-	-	-	-
Public safety	57,393	5,358	1,042	-
Culture and recreation	-	-	-	13,188
Economic development	-	-	-	-
Assigned for:				
Capital acquisition and construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>57,393</u>	<u>5,358</u>	<u>1,042</u>	<u>13,188</u>
Total liabilities and fund balances	<u>\$ 57,393</u>	<u>\$ 12,889</u>	<u>\$ 8,062</u>	<u>\$ 13,188</u>

Special Revenue				Capital Projects		Total Governmental Funds
Municipal Court Technology	Municipal Court Building Security	Hotel	Emergency Vehicle	Construction	Street Maintenance	
\$ -	\$ -	\$ -	\$ -	\$ 9,297	\$ -	\$ 26,523
-	-	-	-	27,369	-	27,369
-	-	5,770	-	-	116,059	121,829
<u>21,974</u>	<u>54,039</u>	<u>48,213</u>	<u>102,994</u>	<u>-</u>	<u>258,960</u>	<u>560,486</u>
<u>\$ 21,974</u>	<u>\$ 54,039</u>	<u>\$ 53,983</u>	<u>\$ 102,994</u>	<u>\$ 36,666</u>	<u>\$ 375,019</u>	<u>\$ 736,207</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,234	\$ 73,234
-	-	-	-	8,526	-	15,546
-	-	-	-	-	-	7,531
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,526</u>	<u>73,234</u>	<u>96,311</u>
-	-	-	-	-	301,785	301,785
21,974	54,039	-	-	-	-	76,013
-	-	-	102,994	-	-	166,787
-	-	-	-	-	-	13,188
-	-	53,983	-	-	-	53,983
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,140</u>	<u>-</u>	<u>28,140</u>
<u>21,974</u>	<u>54,039</u>	<u>53,983</u>	<u>102,994</u>	<u>28,140</u>	<u>301,785</u>	<u>639,896</u>
<u>\$ 21,974</u>	<u>\$ 54,039</u>	<u>\$ 53,983</u>	<u>\$ 102,994</u>	<u>\$ 36,666</u>	<u>\$ 375,019</u>	<u>\$ 736,207</u>

**CITY OF BALCH SPRINGS, TEXAS**

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

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Special Revenue			
	Law Enforcement	Justice Grant	Department of Justice Equitable Sharing	Library Donation
<b>REVENUES</b>				
Sales and miscellaneous taxes	\$ -	\$ -	\$ -	\$ -
Fees and fines	-	-	-	-
Intergovernmental	-	4,787	1,040	-
Investment earnings	-	160	2	-
Miscellaneous	<u>22,104</u>	-	-	<u>14,572</u>
Total revenues	<u>22,104</u>	<u>4,947</u>	<u>1,042</u>	<u>14,572</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	20,366	11,082	-	-
Public works	-	-	-	-
Legal	-	-	-	-
Culture and recreation	-	-	-	6,928
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>20,366</u>	<u>11,082</u>	<u>-</u>	<u>6,928</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,738	( 6,135)	1,042	7,644
<b>FUND BALANCES, BEGINNING</b>	<u>55,655</u>	<u>11,493</u>	<u>-</u>	<u>5,544</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 57,393</u>	<u>\$ 5,358</u>	<u>\$ 1,042</u>	<u>\$ 13,188</u>

Special Revenue				Capital Projects		Total Other Governmental Funds
Municipal Court Technology	Municipal Court Building Security	Hotel	Emergency Vehicle	Construction	Street Maintenance	
\$ -	\$ -	\$ 19,542	\$ -	\$ -	\$ 672,811	\$ 692,353
28,216	21,159	-	-	-	-	49,375
-	-	-	32,876	-	-	38,703
-	-	-	-	55	-	217
-	-	-	62,930	-	-	99,606
<u>28,216</u>	<u>21,159</u>	<u>19,542</u>	<u>95,806</u>	<u>55</u>	<u>672,811</u>	<u>880,254</u>
-	-	-	4,035	-	-	35,483
-	-	-	-	-	99,215	99,215
20,678	677	-	-	-	-	21,355
-	-	-	-	-	-	6,928
-	-	-	44,210	-	-	44,210
-	-	-	5,405	-	-	5,405
612	-	-	-	89,913	658,946	749,471
<u>21,290</u>	<u>677</u>	<u>-</u>	<u>53,650</u>	<u>89,913</u>	<u>758,161</u>	<u>962,067</u>
6,926	20,482	19,542	42,156	( 89,858)	( 85,350)	( 81,813)
<u>15,048</u>	<u>33,557</u>	<u>34,441</u>	<u>60,838</u>	<u>117,998</u>	<u>387,135</u>	<u>721,709</u>
<u>\$ 21,974</u>	<u>\$ 54,039</u>	<u>\$ 53,983</u>	<u>\$ 102,994</u>	<u>\$ 28,140</u>	<u>\$ 301,785</u>	<u>\$ 639,896</u>

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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 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, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2012. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2011-2, 2011-3, 2011-4 and 2011-5, to be material weaknesses.

## 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2011-1.

The City of Balch Springs, Texas' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Balch Springs, Texas' responses and, accordingly, we express no opinion on them.

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.

*Patricia Brown: Hill, L.L.P.*

March 8, 2012

**CITY OF BALCH SPRINGS, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED SEPTEMBER 30, 2011**

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards**

**Finding 2011-1:**

Condition: The City was using cash that was restricted by the U. S. Department of Housing and Urban Development to pay for unallowable administrative expenditures.

Effect: The City was improperly allocating more administrative expenditures to the Section 8 Housing fund than it had in allowable and available revenues and equity.

Cause: The City did not have adequate controls in place to monitor the resources available for administrative expenditures and the restricted cash in the Section 8 Housing fund.

Recommendation: The City needs to put controls in place to budget and monitor administrative expenditures to the Section 8 Housing fund in such a manner that expenditures charged to that fund do not exceed available resources. Additionally, the City needs to implement controls to monitor the cash restricted by the U. S. Department of Housing and Urban Development to ensure that this cash is only used for allowable purposes.

Management's Response: The City is creating accounts to better track and control the Section 8 Housing Fund. We plan to continue to work closely with HUD to monitor the accuracy of our program.

Contact Person Responsible  
for Corrective Action: Cindy Gross, City Secretary

Anticipated Completion  
Date: Immediate

(continued)

**CITY OF BALCH SPRINGS, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**(Continued)**  
**YEAR ENDED SEPTEMBER 30, 2011**

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards**

**Finding 2011-2:**

<u>Condition:</u>	The City's main operating bank account was not properly reconciled for the fiscal year as of the time of the audit.
<u>Effect:</u>	The actual reconciled cash balance would not be available to the City in a timely manner. This increases the opportunity for misstatements, both intentional and unintentional, to not be identified and corrected promptly.
<u>Cause:</u>	The City does not have defined policies and procedures in regards to reconciling the City's cash balances.
<u>Recommendation:</u>	Controls need to be put in place that will ensure that these bank reconciliations are performed correctly and on a timely basis. These reconciliations make it possible to accurately state cash at all times during the year as well as identify errors involving cash.
<u>Management's Response:</u>	We will develop a bank reconciliation schedule to ensure completion of all reconciliations in a timely manner.
<u>Contact Person Responsible for Corrective Action:</u>	Suzanne Klein, CFO
<u>Anticipated Completion Date:</u>	Immediate

**(continued)**

CITY OF BALCH SPRINGS, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

YEAR ENDED SEPTEMBER 30, 2011

Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards

Finding 2011-3:

Condition: The City is not maintaining adequate internal controls over capital assets.

Effect: By not maintaining adequate controls over capital assets, the City is increasing the risk that assets could be misappropriated or materially misstated and this also increases the risk that an extended period of time could lapse before these types of issues are identified.

Cause: The City does not have controls in place to ensure that all capital asset activity including additions, deletions and depreciation expense are properly recorded in the City's financial statements. The City also does not have policies and procedures in place to ensure that a capital asset inventory is performed on a periodic basis.

Recommendation: Internal controls need to be put in place to track and monitor all capital asset activity that occurs within the City. The City should also be maintaining an accurate detailed listing of all assets owed by the City. Additionally, policies and procedures should be implemented that will ensure that finance is made aware of all asset purchases and sales so that an accurate listing of assets can be maintained on an ongoing basis.

Management's Response: We plan on developing and implementing an inventory control policy. This plan will require us to perform quarterly inventory counts. Additionally, the City will design forms for disposals of assets. Finally, the policy will require us to communicate with departments on assets purchased.

Contact Person Responsible  
for Corrective Action: Suzanne Klein, CFO

Anticipated Completion  
Date: Three to six months

(continued)

CITY OF BALCH SPRINGS, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

YEAR ENDED SEPTEMBER 30, 2011

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards**

**Finding 2011-4:**

Condition: The City was dating checks written in fiscal year 2012 back to September 30, 2011.

Effect: Cash and accounts payable was materially understated.

Cause: The City does not have adequate controls in place to ensure that predated checks are not written from the City's bank accounts.

Recommendation: The City should adopt policies and procedures that require that the City properly date checks as of the date written. These policies and procedures will help to maintain the accuracy of the bank reconciliations and to keep a true record of cash at all times.

Management's Response: The City plans on developing an accounting policy and procedure that will address the handling of checks at the end of the year. This policy will also ensure the proper recording of accounts payable at the end of the year.

Contact Person Responsible  
for Corrective Action: Suzanne Klein, CFO

Anticipated Completion  
Date: Three to six months

(continued)



CITY OF BALCH SPRINGS, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

YEAR ENDED SEPTEMBER 30, 2011

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards**

**Finding 2011-5:**

Condition: The City was using liability accounts to separately track revenues and expenditures that were not previously budgeted. These related revenues and expenditures were being netted within the same account numbers.

Effect: The City's revenues, expenditures, and liabilities were materially misstated.

Cause: Internal controls were not in place to prevent or detect these misstatements.

Recommendation: Internal controls need to be put in place that will ensure all revenues and expenditures are properly classified as such. Additionally, the City should implement controls to ensure that all liabilities are properly reconciled on a regular basis to detect any errors that may have been made.

Management's Response: This has been done for several years and we are working to correct this. We have begun setting up reimbursement accounts to show proper accounting and give a clearer picture of actual cash flows.

Contact Person Responsible  
for Corrective Action: Suzanne Klein, CFO

Anticipated Completion  
Date: Three to six months

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