

ANNUAL FINANCIAL REPORT

of the

CITY OF DAYTON, TEXAS

For the Year Ended
September 30, 2012

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CITY OF DAYTON, TEXAS

TABLE OF CONTENTS

September 30, 2012

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	16
Fund Financial Statements	
Governmental Funds:	
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances– Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Funds:	
Statement of Net Assets	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	23
Statement of Cash Flows	24
Fiduciary Funds:	
Statement of Changes in Fiduciary Net Assets	27
Notes to Financial Statements	29
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance– Budget and Actual–General Fund	51
Schedule of Funding Progress–Texas Municipal Retirement System	53
<u>COMBINING STATEMENTS AND INDIVIDUAL FUND SCHEDULES</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance– Budget and Actual – Debt Service Fund	57
Combining Balance Sheet–Nonmajor Governmental Funds	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances– Nonmajor Governmental Funds	63

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

The Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

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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 statements and individual fund schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining fund statements and individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 8, 2013

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

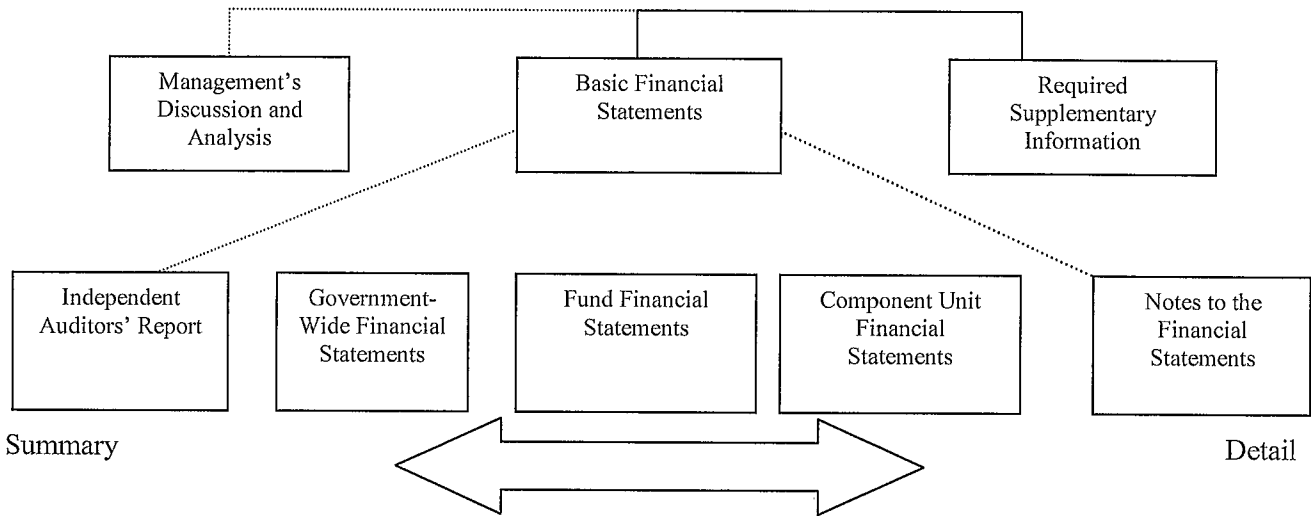
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CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

The purpose of the Management's Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the City of Dayton's (the "City") financial activities for the year ending September 30, 2012. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and longterm analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

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

1. Governmental Activities – Most of the City's basic services are reported here including public safety (police, fire, EMS), public works (street and park maintenance), community development (building permits/inspection), code compliance, recreation, project engineering, and general administration (City manager, City secretary, finance, human resources, information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-type Activities – Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment and refuse services.
3. Component Unit – The City itself is the primary government. The Dayton Community Development Corporation (the "Corporation") is established as a separate legal entity. The City maintains financial accountability; thus, the Corporation is reported as a *component unit*, separate from the financial transactions of the City.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with these budgets.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

Proprietary Funds

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' medical insurance, group life and dental insurance activity is reported in a fiduciary fund. Since the resources of this fund are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$23,052,605 as of September 30, 2012, in the primary government.

A portion of the City's net assets, \$10,350,219, reflects its investments in capital assets (e.g., land, City hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

	2012			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 8,524,496	\$ 4,887,211	\$ -	\$ 13,411,707
Capital assets, net	18,485,879	17,254,380	-	35,740,259
Total Assets	<u>27,010,375</u>	<u>22,141,591</u>	<u>-</u>	<u>49,151,966</u>
Other liabilities	489,632	219,689	-	709,321
Long-term liabilities	17,330,040	8,060,000	-	25,390,040
Total Liabilities	<u>17,819,672</u>	<u>8,279,689</u>	<u>-</u>	<u>26,099,361</u>
Net Assets:				
Invested in capital assets, net of related debt	1,445,839	9,194,380	(290,000)	10,350,219
Restricted	1,675,266	-	-	1,675,266
Unrestricted	6,069,598	4,667,522	290,000	11,027,120
Total Net Assets	<u>\$ 9,190,703</u>	<u>\$ 13,861,902</u>	<u>\$ -</u>	<u>\$ 23,052,605</u>
2011				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 8,838,394	\$ 5,058,696	\$ -	\$ 13,897,090
Capital assets, net	17,188,776	17,534,270	-	34,723,046
Total Assets	<u>26,027,170</u>	<u>22,592,966</u>	<u>-</u>	<u>48,620,136</u>
Other liabilities	538,428	439,252	-	977,680
Long-term liabilities	17,980,032	8,175,000	-	26,155,032
Total Liabilities	<u>18,518,460</u>	<u>8,614,252</u>	<u>-</u>	<u>27,132,712</u>
Net Assets:				
Invested in capital assets, net of related debt	925,703	9,359,270	(570,000)	9,714,973
Restricted	1,616,547	-	-	1,616,547
Unrestricted	4,966,460	4,619,444	570,000	10,155,904
Total Net Assets	<u>\$ 7,508,710</u>	<u>\$ 13,978,714</u>	<u>\$ -</u>	<u>\$ 21,487,424</u>

A portion of the City's net assets, \$1,675,266 or 7.3 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$11,027,120, may be used to meet the City's ongoing obligation to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net asset presentation. The City has included a reconciliation column in the Statement of Net Assets adjusting the invested in capital assets, net of related debt. Debt associated with governmental activities in the amount of \$290,000 is being used to finance capital assets reported in business-type

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

governmental activities in the amount of \$290,000 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net assets and deducted from invested in capital assets, net of related debt in total for the primary government.

Statement of Activities:

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

	2012			2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 409,599	\$ 4,198,827	\$ 4,608,426	\$ 484,141	\$ 4,046,389	\$ 4,530,530
Grants and contributions	493,848	35,000	528,848	1,093,908	388,212	1,482,120
Capital grants and contributions	-	-	-	-	261,526	261,526
General revenues:						
Property taxes	4,570,211	-	4,570,211	4,564,356	-	4,564,356
Sales taxes	1,263,882	-	1,263,882	1,019,311	-	1,019,311
Franchise and local taxes	728,811	-	728,811	768,721	-	768,721
Investment income	52,953	26,628	79,581	84,499	39,337	123,836
Other revenues	76,708	24,338	101,046	67,840	27,297	95,137
Total Revenues	7,596,012	4,284,793	11,880,805	8,082,776	4,762,761	12,845,537
Expenses						
General government	1,078,921	-	1,078,921	952,709	-	952,709
Public safety	2,117,615	-	2,117,615	2,005,207	-	2,005,207
Public works	1,151,412	3,991,338	5,142,750	1,422,006	3,957,431	5,379,437
Culture and recreation	598,987	-	598,987	631,215	-	631,215
Community enhancement	655,102	-	655,102	870,551	-	870,551
Interest and fees on debt	722,249	-	722,249	776,729	-	776,729
Total Expenses	6,324,286	3,991,338	10,315,624	6,658,417	3,957,431	10,615,848
Change in Net Assets Before Capital Contributions and Transfers						
	1,271,726	293,455	1,565,181	1,424,359	805,330	2,229,689
Transfers						
	410,267	(410,267)	-	149,611	(149,611)	-
Total	410,267	(410,267)	-	149,611	(149,611)	-
Change in Net Assets	1,681,993	(116,812)	1,565,181	1,573,970	655,719	2,229,689
Beginning net assets						
	7,508,710	13,978,714	21,487,424	5,934,740	13,322,995	19,257,735
Ending Net Assets	\$ 9,190,703	\$ 13,861,902	\$ 23,052,605	\$ 7,508,710	\$ 13,978,714	\$ 21,487,424

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

Governmental Activities

For the year ended September 30, 2012, revenues from governmental activities totaled \$7,596,012. Property and sales tax revenues are the City's largest general revenue sources. Property tax revenue increased slightly over prior year by \$5,855. Sales tax revenue increased by \$244,571 or 24.0 percent over the previous year. Operating grants and contributions decreased by \$600,060 or 54.9 percent from the prior year due to a decrease in funds received from various grants. General government expenditures increased by \$126,212 or 13.2 percent over prior year due to increased personnel and supplies expenses. Public works expenses decreased by \$270,594 or 19.0 percent from prior year due to reduced drainage expenses.

Business-Type Activities

For the year ended September 30, 2012, charges for services related to business-type activities totaled \$4,198,827. This is an increase of \$152,438, or 3.8 percent, over the previous year due to a slight increase in customers. Business-type revenue from grants and contributions decreased by \$353,212 or 91.0 percent from prior year due to a decrease in grant funds received. There were no capital grants and contributions in current year due to the completion of the 1960 waterline extension project.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year, the City's governmental funds reflect a combined fund balance of \$7,140,140. Of this, \$1,532,577 is restricted for debt service, \$25,830 is restricted for municipal court, and \$2,193 is restricted for public safety. The City has assigned \$193,764 for various projects. Unassigned fund balance totaled \$5,385,776 as of year end.

There was a combined decrease in governmental fund balances of \$335,269 from the prior year. The majority of this decrease is related to the decrease in the general fund balance.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$5,385,776, while total fund balance reached \$5,416,975. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 79.3 percent of total general fund expenditures, while total fund balance represents 79.7 percent of the total expenditures. The general fund reported an overall decrease of \$206,510 primarily due to a decrease in grant funds received.

The debt service fund has a total fund balance of \$1,532,577, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$56,806. This increase can be attributed to transfers in from other funds.

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

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$18,485,879 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

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

- Construction in progress additions for the Waco Street Drainage Project in the amount of \$473,224.
- Construction in progress additions for the East Clayton Street Sewer Line Reclamation Project in the amount of \$311,476.
- The purchase of land in the amount of \$707,362

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned increase in budgeted fund balance in the amount of \$776,986 in the general fund. However, the net change in fund balance decreased by \$206,510.

Actual general fund revenues were under amended budgeted revenues by \$196,645 during 2012. This net variance includes a negative variance of \$143,506 for property tax revenues. Actual expenditures were higher than total budgeted amounts by \$804,654 for the fiscal year mainly due to a negative variance of \$814,781 in general government expenditures.

LONG-TERM DEBT

At the end of the current year, the City had total general obligation bonds, certificates of obligation, tax anticipation notes and capital leases outstanding of \$25,209,248. Of this amount, \$14,825,000 was general obligation debt, certificates of obligation account for \$8,350,000, tax notes of \$1,725,000, and capital leases totaled \$309,248.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Due to good fiscal management, the City's financial stability is strong. City management and the City Council are in constant review of the City's fund balance to insure that there are sufficient funds always on hand to cover any unplanned events.

The City's sales tax and property tax revenues continue to increase and show a healthy future for the City. In addition to this, the City has several new industrial prospects interested in locating to the area that will prove to be an even greater financial asset.

This is a good indication that the City continues to be headed in the right direction in regards to what it has to offer those desiring to relocate to southeast Texas and Liberty County.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Office of the City Secretary, 117 Cook Street, Dayton, Texas 77535.

FINANCIAL STATEMENTS

CITY OF DAYTON, TEXAS

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,915,342	\$ 4,044,301	\$ -	\$ 10,959,643
Investments	252,758	-	-	252,758
Receivables, net	946,861	436,144	-	1,383,005
Due from component unit	2,822	-	-	2,822
Inventories	-	111,177	-	111,177
Prepaid items	616	-	-	616
Total Current Assets	8,118,399	4,591,622	-	12,710,021
Net pension asset	55,792	12,588	-	68,380
Deferred charges	350,305	283,001	-	633,306
Capital assets:				
Non-depreciable	1,375,094	620,002	-	1,995,096
Net depreciable capital assets	17,110,785	16,634,378	-	33,745,163
	18,891,976	17,549,969	-	36,441,945
Total Assets	27,010,375	22,141,591	-	49,151,966
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	374,966	78,445	-	453,411
Due to primary government	-	-	-	-
Customer deposits	-	92,499	-	92,499
Accrued interest payable	114,666	48,745	-	163,411
	489,632	219,689	-	709,321
Noncurrent liabilities:				
Due within one year	1,363,195	120,000	-	1,483,195
Due in more than one year	15,966,845	7,940,000	-	23,906,845
	17,330,040	8,060,000	-	25,390,040
Total Liabilities	17,819,672	8,279,689	-	26,099,361
Net Assets				
Invested in capital assets, net of related debt	1,445,839	9,194,380	(290,000)	10,350,219
Restricted for:				
Debt service	1,647,243	-	-	1,647,243
Other purposes	28,023	-	-	28,023
Economic development	-	-	-	-
Unrestricted	6,069,598	4,667,522	290,000	11,027,120
Total Net Assets	\$ 9,190,703	\$ 13,861,902	\$ -	\$ 23,052,605

See Notes to Financial Statements.

<u>Component Unit</u>	
<u>DCDC</u>	
\$	572,514
	864,213
	125,617
	-
	-
	-
	<u>1,562,344</u>
	-
	-
	-
	-
	<u>1,562,344</u>
	-
	-
	-
	-
	<u>4,129</u>
	2,822
	-
	-
	<u>6,951</u>
	-
	-
	-
	<u>6,951</u>
	-
	-
	-
	1,555,393
	-
\$	<u><u>1,555,393</u></u>

CITY OF DAYTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,078,921	\$ -	\$ -
Public safety	2,117,615	380,974	-
Public works	1,151,412	28,625	491,798
Culture and recreation	598,987	-	-
Community enhancement	655,102	-	2,050
Interest and fees on debt	722,249	-	-
Total Governmental Activities	6,324,286	409,599	493,848
Business-Type Activities			
Water and sewer	3,225,967	3,198,803	35,000
Refuse	765,371	1,000,024	-
	3,991,338	4,198,827	35,000
Total Business-Type Activities	\$ 10,315,624	\$ 4,608,426	\$ 528,848
Component Unit			
Dayton Community Development Corporation	\$ 489,024	\$ -	\$ -

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning net assets

Ending Net Assets

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	DCDC
\$ (1,078,921)	\$ -	\$ (1,078,921)	\$ -
(1,736,641)	-	(1,736,641)	-
(630,989)	-	(630,989)	-
(598,987)	-	(598,987)	-
(653,052)	-	(653,052)	-
(722,249)	-	(722,249)	-
<u>(5,420,839)</u>	<u>-</u>	<u>(5,420,839)</u>	<u>-</u>
-	7,836	7,836	-
-	234,653	234,653	-
-	242,489	242,489	-
<u>(5,420,839)</u>	<u>242,489</u>	<u>(5,178,350)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (489,024)</u>
4,570,211	-	4,570,211	-
1,263,882	-	1,263,882	669,864
728,811	-	728,811	-
52,953	26,628	79,581	6,095
76,708	24,338	101,046	686
410,267	(410,267)	-	-
<u>7,102,832</u>	<u>(359,301)</u>	<u>6,743,531</u>	<u>676,645</u>
1,681,993	(116,812)	1,565,181	187,621
7,508,710	13,978,714	21,487,424	1,367,772
<u>\$ 9,190,703</u>	<u>\$ 13,861,902</u>	<u>\$ 23,052,605</u>	<u>\$ 1,555,393</u>

CITY OF DAYTON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2012

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 5,157,771	\$ 1,571,865	\$ 185,706	\$ 6,915,342
Investments	252,758	-	-	252,758
Receivables, net	757,472	182,084	7,305	946,861
Due from other funds	-	4,346	-	4,346
Due from component unit	2,822	-	-	2,822
Prepaid items	616	-	-	616
Total Assets	\$ 6,171,439	\$ 1,758,295	\$ 193,011	\$ 8,122,745
Liabilities				
Accounts payable and accrued liabilities	\$ 328,909	\$ 43,634	\$ 2,423	\$ 374,966
Deferred revenue	421,209	182,084	-	603,293
Due to other funds	4,346	-	-	4,346
Total Liabilities	754,464	225,718	2,423	982,605
Fund Balances				
Nonspendable:				
Prepaid items	616	-	-	616
Restricted:				
Debt service	-	1,532,577	-	1,532,577
Municipal court	25,830	-	-	25,830
Public safety	2,193	-	-	2,193
Assigned:				
Special projects	3,176	-	-	3,176
Tourism	-	-	190,588	190,588
Unassigned	5,385,776	-	-	5,385,776
Total Fund Balances	5,416,975	1,532,577	190,588	7,140,140
Total Liabilities and Fund Balances	\$ 6,171,439	\$ 1,758,295	\$ 193,011	

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	1,375,094
Capital assets - net depreciable	17,110,785

The net pension asset is not an available resource and, therefore, is not reported in the governmental funds

55,792

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

603,293

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(114,666)
Non-current liabilities due in one year	(1,363,195)
Non-current liabilities due in more than one year	(15,966,845)
Deferred bond issuance cost	350,305

Net Assets of Governmental Activities	\$ 9,190,703
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See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

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

For the Year Ended September 30, 2012

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Property tax	\$ 3,056,443	\$ 1,467,107	\$ -	\$ 4,523,550
Sales tax	1,263,882	-	-	1,263,882
Franchise and local taxes	439,617	-	75,731	515,348
Licenses and permits	28,625	-	-	28,625
Intergovernmental	372,834	-	118,964	491,798
Fines and forfeitures	260,989	-	-	260,989
Charges for services	119,985	-	-	119,985
Investment income	39,767	11,521	1,665	52,953
Contributions and donations	2,050	-	-	2,050
Payments in lieu of taxes	213,463	-	-	213,463
Other revenue	76,708	-	-	76,708
Total Revenues	5,874,363	1,478,628	196,360	7,549,351
Expenditures				
Current:				
General government	2,570,827	-	5,950	2,576,777
Public safety	2,064,095	-	-	2,064,095
Public works	1,248,321	-	-	1,248,321
Culture and recreation	423,189	-	-	423,189
Community enhancement	100,224	-	147,657	247,881
Civic center	276,644	-	-	276,644
Tourism promotion	-	-	21,024	21,024
Capital outlay	7,092	-	-	7,092
Debt service:				
Principal	83,848	1,290,000	-	1,373,848
Interest and fiscal charges	-	736,016	-	736,016
Debt issuance costs	20,000	-	-	20,000
Total Expenditures	6,794,240	2,026,016	174,631	8,994,887
Excess (Deficiency) of Revenues Over (Under) Expenditures	(919,877)	(547,388)	21,729	(1,445,536)
Other Financing Sources (Uses)				
Transfers in	17,803	604,194	-	621,997
Transfers (out)	(4,436)	-	(207,294)	(211,730)
Debt issuance	700,000	-	-	700,000
Total Other Financing Sources (Uses)	713,367	604,194	(207,294)	1,110,267
Net Change in Fund Balances	(206,510)	56,806	(185,565)	(335,269)
Beginning fund balances	5,623,485	1,475,771	376,153	7,475,409
Ending Fund Balances	\$ 5,416,975	\$ 1,532,577	\$ 190,588	\$ 7,140,140

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

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

Net changes in fund balances - total governmental funds	\$	(335,269)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		2,054,476
Depreciation expense		(757,373)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		47,204
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Accrued interest		3,998
Debt issuance		(700,000)
Principal expenditures		1,339,188
Deferred charges		10,804
Bond issuance cost		18,965

Change in Net Assets of Governmental Activities	\$	1,681,993
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See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2012

	Water and Sewer	Refuse	Total
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 2,984,928	\$ 1,059,373	\$ 4,044,301
Receivables, net	322,874	113,270	436,144
Inventories	111,177	-	111,177
Total Current Assets	3,418,979	1,172,643	4,591,622
Noncurrent Assets			
Deferred charges	283,001	-	283,001
Net pension asset	11,111	1,477	12,588
Capital assets:			
Non-depreciable	593,817	26,185	620,002
Net depreciable capital assets	16,625,089	9,289	16,634,378
Total Noncurrent Assets	17,513,018	36,951	17,549,969
Total Assets	20,931,997	1,209,594	22,141,591
<u>Liabilities</u>			
Current Liabilities			
Accounts payable and accrued liabilities	69,579	8,866	78,445
Customer deposits	92,499	-	92,499
Accrued interest payable	48,745	-	48,745
Total Current Liabilities	210,823	8,866	219,689
Noncurrent Liabilities			
Due within one year	120,000	-	120,000
Due in more than one year	7,940,000	-	7,940,000
Total Liabilities	8,270,823	8,866	8,279,689
<u>Net Assets</u>			
Invested in capital assets, net of related debt	9,157,429	36,951	9,194,380
Unrestricted	3,503,744.9	1,163,777	4,667,522
Total Net Assets	\$ 12,661,174	\$ 1,200,728	\$ 13,861,902

See Notes to Financial Statements.

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

For the Year Ended September 30, 2012

	Water and Sewer	Refuse	Total
<u>Operating Revenues</u>			
Water and sewer charges	\$ 3,198,803	\$ -	\$ 3,198,803
Sanitation	-	1,000,024	1,000,024
Other services	24,272	66	24,338
Intergovernmental	35,000	-	35,000
Total Operating Revenues	3,258,075	1,000,090	4,258,165
<u>Operating Expenses</u>			
Personnel services	699,880	80,015	779,895
Services	281,116	663,941	945,057
Supplies	151,484	8,949	160,433
Utilities	276,591	2,705	279,296
Repairs and maintenance	338,858	9,581	348,439
Depreciation	1,117,234	180	1,117,414
Miscellaneous	51,426	-	51,426
Total Operating Expenses	2,916,589	765,371	3,681,960
Operating Income	341,486	234,719	576,205
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	19,634	6,994	26,628
Interest expense	(309,378)	-	(309,378)
Total Nonoperating Revenues (Expenses)	(289,744)	6,994	(282,750)
Income Before Transfers	51,742	241,713	293,455
Transfers in	87,138	-	87,138
Transfers (out)	(497,405)	-	(497,405)
	(410,267)	-	(410,267)
Change in Net Assets	(358,525)	241,713	(116,812)
Beginning net assets	13,019,699	959,015	13,978,714
Ending Net Assets	\$ 12,661,174	\$ 1,200,728	\$ 13,861,902

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2012

	Water and Sewer	Refuse	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 3,590,999	\$ 983,541	\$ 4,574,540
Payments to suppliers	(1,199,513)	(748,691)	(1,948,204)
Payments to employees	(699,988)	(80,030)	(780,018)
Net Cash Provided by Operating Activities	1,691,498	154,820	1,846,318
<u>Cash Flows from Noncapital Financing Activities</u>			
Operating transfer in	87,138	-	87,138
Operating transfer (out)	(497,405)	-	(497,405)
Net Cash (Used) by Noncapital Financing Activities	(410,267)	-	(410,267)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(837,524)	-	(837,524)
Principal paid on capital debt	(115,000)	-	(115,000)
Interest paid on capital debt	(293,657)	-	(293,657)
Net Cash (Used) by Capital and Related Financing Activities	(1,246,181)	-	(1,246,181)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	19,634	6,994	26,628
Net Cash Provided by Investing Activities	19,634	6,994	26,628
Net Increase in Cash and Cash Equivalents	54,684	161,814	216,498
Beginning cash and cash equivalents	2,930,244	897,559	3,827,803
Ending Cash and Cash Equivalents	\$ 2,984,928	\$ 1,059,373	\$ 4,044,301

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2012

	Water and Sewer	Refuse	Total
<u>Reconciliation of Operating Income</u>			
<u>to Net Cash Provided by Operating Activities</u>			
Operating income	\$ 341,486	\$ 234,719	\$ 576,205
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,117,234	180	1,117,414
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	326,381	(16,549)	309,832
Net pension asset	(108)	(15)	(123)
Inventories	62,553	-	62,553
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(162,591)	(63,515)	(226,106)
Customer deposits	6,543	-	6,543
Net Cash Provided by Operating Activities	\$ 1,691,498	\$ 154,820	\$ 1,846,318

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended September 30, 2012

	<u>Employee Benefits Trust</u>
<u>Additions</u>	
Contributions:	
Employee	\$ 657,832
Total Additions	<u>657,832</u>
<u>Deductions</u>	
Benefits	657,832
Total Deductions	<u>\$ 657,832</u>
Change in Net Assets	-
Beginning net assets	<u>-</u>
Ending Net Assets	<u><u>\$ -</u></u>

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dayton, Texas (the “City”) is a Home Rule City. The City operates under a “Mayor-Council” form of government and provides services authorized by its charter. Presently, these services include: police, fire and ambulance protection, drainage, building and code inspection, planning, street repair and maintenance, park maintenance, and general administrative services.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

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

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

Discretely Presented Component Unit

Dayton Community Development Corporation

Dayton Community Development Corporation (the “Corporation”) has been included in the reporting entity as a discretely presented component unit. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of 11 members, seven of whom are voting members and four of whom are “advisory directors” who cannot vote on any action of the Corporation. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. As a discretely presented component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation has a September 30 year end.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

Financial statements for the Corporation may be obtained by contacting Earl Joy at 212 Bryan Street, Dayton, TX 77535.

B. Government-Wide and Fund Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

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

Governmental Funds

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

General Fund

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

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The hotel and motel tax, the community development block grant, and library and civic center special revenue funds are considered non-major for reporting purposes.

Proprietary Fund Types

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

Enterprise Funds

The water and sewer fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The refuse fund is used to account for the operations that provide garbage services to the public. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund and refuse fund are considered major funds for reporting purposes.

Fiduciary Fund

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are accounted for in a manner similar to proprietary funds.

Employee Benefits Trust Fund

The employee benefits trust fund accounts for activities of the Blue Cross Blue Shield medical insurance and the Lincoln Life group life and dental insurance, which accumulates resources for payments to qualified City employees. Members of City Council are the trustee, or fiduciary, for its employees' benefits trust fund.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

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

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

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses in the accounting period in which they are incurred.

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

1. Deposits and Investments

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

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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

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

2. Receivables

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

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

All trade receivables are shown net of an allowance for uncollectible.

Property taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on January 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities column in the Statement of Net Assets. The long-term debt consists primarily of bonds payable.

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

6. Fund Equity

Fund balances of governmental funds are classified as follows:

Nonspendable fund balance — represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance — represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

Committed fund balance — represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

Assigned fund balance — represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assignments can be made at any time.

Unassigned fund balance — represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

7. 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget as defined by the charter is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General:		
General government	\$	814,781
Capital outlay	\$	7,092
Principal	\$	51,524

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	<u>\$ 252,758</u>	0.84
Portfolio weighted average maturity		0.84

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	<u>\$ 864,213</u>	0.15
Portfolio weighted average maturity		

Credit risk. The City's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by Standard & Poor's. As of September 30, 2012, the City's investment in TexPool was rated AAAM by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 103 percent. As of September 30, 2012, market values of pledged securities and FDIC coverage sufficiently covered bank balances.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

B. Receivables

The following comprise receivable balances at year end for governmental funds:

	General	Debt Service	Nonmajor Governmental	Component Unit
Property tax	\$ 421,209	\$ 182,084	\$ -	\$ -
Sales tax	251,233	-	-	125,617
Other tax	81,539	-	-	-
Other	3,491	-	7,305	-
	<u>\$ 757,472</u>	<u>\$ 182,084</u>	<u>\$ 7,305</u>	<u>\$ 125,617</u>

The following comprise receivable balances at year end for enterprise funds:

	Water and Sewer	Refuse
Accounts	\$ 335,996	\$ 114,796
Other	279	-
Less allowance	(13,401)	(1,526)
	<u>\$ 322,874</u>	<u>\$ 113,270</u>

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)/ (Reclasses)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 667,732	\$ 707,362	\$ -	\$ 1,375,094
Construction in progress	820,869	784,700	(1,605,569)	-
Total capital assets, not being depreciated	<u>1,488,601</u>	<u>1,492,062</u>	<u>(1,605,569)</u>	<u>1,375,094</u>
Other capital assets:				
Infrastructure	1,982,066	1,712,502	-	3,694,568
Buildings and improvements	13,575,434	-	-	13,575,434
Machinery and equipment	3,439,670	455,481	-	3,895,151
Total other capital assets	<u>18,997,170</u>	<u>2,167,983</u>	<u>-</u>	<u>21,165,153</u>
Less accumulated depreciation for:				
Infrastructure	(325,488)	(91,673)	-	(417,161)
Buildings and improvements	(1,077,306)	(299,102)	-	(1,376,408)
Machinery and equipment	(1,894,201)	(366,598)	-	(2,260,799)
Total accumulated depreciation	<u>(3,296,995)</u>	<u>(757,373)</u>	<u>-</u>	<u>(4,054,368)</u>
Other capital assets, net	15,700,175	1,410,610	-	17,110,785
Totals	<u>\$ 17,188,776</u>	<u>\$ 3,578,593</u>	<u>\$ -</u>	<u>18,485,879</u>
				Less debt associated with capital assets (17,040,040)
				<u>Invested in capital assets, net of related debt \$ 1,445,839</u>

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

Depreciation was charged to governmental functions as follows:

General government	\$	34,751
Public safety		179,059
Public works		193,254
Culture and recreation		240,756
Community enhancement		109,553
Total Governmental Activities Depreciation Expense	\$	<u>757,373</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ (Reclasses)</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 107,408	\$ -	\$ -	\$ 107,408
Construction in progress	742,184	622,440	(852,030)	512,594
Total capital assets not being depreciated	<u>849,592</u>	<u>622,440</u>	<u>(852,030)</u>	<u>620,002</u>
Other capital assets:				
Building and improvements	314,434	-	-	314,434
Machinery and equipment	962,364	287,495	-	1,249,859
Water and sewer system	25,783,433	779,619	-	26,563,052
Total other capital assets	<u>27,060,231</u>	<u>1,067,114</u>	<u>-</u>	<u>28,127,345</u>
Less accumulated depreciation for:				
Building and improvements	(99,057)	(7,077)	-	(106,134)
Machinery and equipment	(779,963)	(75,674)	-	(855,637)
Water and sewer system	(9,496,533)	(1,034,663)	-	(10,531,196)
Total accumulated depreciation	<u>(10,375,553)</u>	<u>(1,117,414)</u>	<u>-</u>	<u>(11,492,967)</u>
Other capital assets, net	16,684,678	(50,300)	-	16,634,378
Totals	<u>\$ 17,534,270</u>	<u>\$ 572,140</u>	<u>\$ (852,030)</u>	<u>17,254,380</u>
			Less associated debt	<u>(8,060,000)</u>
			Invested in capital assets, net of related debt	<u>\$ 9,194,380</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$	1,117,234
Refuse		<u>180</u>
Total Business-Type Activities Depreciation Expense	\$	<u>1,117,414</u>

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 15,520,000	\$ -	\$ 695,000	\$ 14,825,000 *	\$ 715,000
Certificates of obligation	570,000	-	280,000	290,000	290,000
Tax anticipation notes	1,340,000	700,000	315,000	1,725,000 *	330,000
Less deferred amounts:					
Issuance premiums	197,133	-	11,596	185,537 *	-
Bond discount	(5,537)	-	(792)	(4,745) *	-
Capital leases	358,436	-	49,188	309,248 *	28,195
long-term liabilities	<u>17,980,032</u>	<u>700,000</u>	<u>1,349,992</u>	<u>17,330,040</u>	<u>1,363,195</u>
Total Governmental					
Activities	<u>\$ 17,980,032</u>	<u>\$ 700,000</u>	<u>\$ 1,349,992</u>	<u>\$ 17,330,040</u>	<u>\$ 1,363,195</u>
				<u>\$ 15,966,845</u>	
				<u>\$ 17,040,040</u>	
Business-Type Activities:					
Certificates of obligation	<u>\$ 8,175,000</u>	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ 8,060,000 *</u>	<u>\$ 120,000</u>
Total Business-Type					
Activities	<u>\$ 8,175,000</u>	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ 8,060,000</u>	<u>\$ 120,000</u>
				<u>\$ 7,940,000</u>	
				<u>\$ 8,060,000</u>	

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<u>Governmental Activities:</u>		
Capital leases	2.6-3.5%	\$ 309,248
General Obligation Bonds		
2008 general obligation refunding bonds	3.35%	1,905,000
2008 general obligation bonds	3.25-5.25%	12,920,000
Total General Obligation Bonds		14,825,000
Certificates of Obligation		
2003 certificates of obligation	3.16%	290,000
Tax Anticipation Notes		
2012 tax anticipation notes	0.54-2.00%	700,000
2009 tax anticipation notes	2.55-4.20%	1,025,000
Total Tax Anticipation Notes		1,725,000
Total Governmental Activities Long-Term Debt		\$ 17,149,248
<u>Business-type Activities:</u>		
Certificates of Obligation		
2006 certificates of obligation	2.95-3.85%	\$ 8,060,000
Total Business-Type Long-Term Debt		\$ 8,060,000

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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

Year Ending Sept. 30	Governmental Activities						Business-Type Activities	
	General Obligation Bonds		Certificates of Obligation		Tax Anticipation Notes		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 715,000	\$ 645,904	\$ 290,000	\$ 5,256	\$ 330,000	\$ 50,185	\$ 120,000	\$ 290,578
2014	990,000	615,100	-	-	455,000	36,198	120,000	286,738
2015	1,025,000	577,303	-	-	470,000	22,367	130,000	282,643
2016	1,070,000	538,003	-	-	115,000	6,450	130,000	278,320
2017	1,050,000	498,105	-	-	115,000	5,128	195,000	272,828
2018	715,000	463,081	-	-	120,000	3,390	555,000	259,939
2019	745,000	432,988	-	-	120,000	1,200	575,000	240,303
2020	780,000	401,513	-	-	-	-	595,000	219,679
2021	810,000	367,725	-	-	-	-	620,000	198,113
2022	850,000	331,388	-	-	-	-	640,000	175,588
2023	890,000	292,238	-	-	-	-	665,000	151,931
2024	930,000	247,800	-	-	-	-	690,000	127,030
2025	980,000	197,663	-	-	-	-	715,000	101,038
2026	1,035,000	144,769	-	-	-	-	740,000	73,935
2027	1,090,000	88,988	-	-	-	-	770,000	45,430
2028	1,150,000	30,188	-	-	-	-	800,000	15,400
Total	\$ 14,825,000	\$ 5,872,751	\$ 290,000	\$ 5,256	\$ 1,725,000	\$ 124,918	\$ 8,060,000	\$ 3,019,489

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City.

Annual debt service requirements to retire outstanding capital leases are as follows:

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2013	\$ 28,195	\$ 15,064
2014	29,568	13,691
2015	31,009	12,251
2016	32,519	10,740
2017	34,103	9,156
2018-2021	153,854	19,181
Totals	\$ 309,248	\$ 80,083

During the 2011 fiscal year, the City purchased a pumper truck for the Dayton Volunteer Fire Department in the amount of \$335,000. The City had not received the pumper truck until after September 30, 2011, and so the item was not reflected on the capital asset schedule until the current fiscal year. The City of Dayton Volunteer Fire Department paid the first principal and interest payment totaling \$43,259 on December 31, 2011. The final nine payments will be made by the City. The City is not obligated in any manner for special assessment debt.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

E. Interfund Transactions

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Individual major governmental funds:		
General	\$ 17,803	\$ 4,436
Debt service	604,194	-
Library and civic center	-	124,592
Community development block grant	-	82,702
Total Governmental Funds	621,997	211,730
 Enterprise Funds:		
Individual major enterprise funds:		
Water and sewer	87,138	497,405
Total Enterprise Funds	87,138	497,405
Total Transfers	\$ 709,135	\$ 709,135

Amounts transferred between funds relate to amounts collected by general, special revenue and enterprise funds for various governmental expenditures and debt payments.

The composition of interfund balances as of year end is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Debt service	General	\$ 4,346

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

F. Fund Equity/Net Assets

Funds restricted by enabling legislation are \$25,830 and \$2,193, related to municipal court security, and public safety.

IV. OTHER INFORMATION

A. Risk Management

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. In prior year, the City had reserved \$114,075 for this arbitrage liability. As a result of the current year arbitrage audit, it was determined that this amount could be released from arbitrage reserve status and instead used for special sewer projects.

D. Pension Plans

1. Texas Municipal Retirement System

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained from TMRS' website at www.TMRS.com.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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>2012</u>	<u>2011</u>
Employee deposit rate	7.00%	6.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs 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

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100, 150, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

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 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 remainder of the plan's 30-year amortization period. 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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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

Annual required contribution (ARC)	\$	188,291
Interest on Net Pension Asset (NPA)		(4,740)
Adjustment to the ARC		4,074
Annual Pension Cost (APC)		<u>187,625</u>
Contributions made		<u>(188,291)</u>
Increase in net pension asset		(666)
Net pension obligation(asset)-beginning of year		<u>(67,714)</u>
Net pension obligation(asset)-end of year		<u><u>\$ (68,380)</u></u>

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2010	\$ 207,242	\$ 257,588	124.29%	\$ (50,346)
2011	\$ 271,502	\$ 288,870	106.40%	\$ (67,714)
2012	\$ 187,625	\$ 188,291	100.35%	\$ (68,380)

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

	2012	2011	2010
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	25.4 Years - Closed period	27.4 Years - Closed period	28.2 Years - Closed period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10 - year smoothed market	10 - year smoothed market	10 - year smoothed market
Investment Rate of Return	7.0%	7.0%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
	0.0%	2.1%	2.1%

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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

		2012
Actuarial Valuation Date		12/31/2011
Actuarial Value of Assets	\$	3,995,813
Actuarial Accrued Liability	\$	4,669,323
Percentage Funded		85.6%
Unfunded Actuarial Accrued Liability (UAAL)	\$	673,510
Annual Covered Payroll	\$	2,822,712
UAAL as a Percentage of Covered Payroll		23.9%

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

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

2. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. Total participant contributions were approximately \$11,100 for the year ended September 30, 2012. The City does not contribute to the plan.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The assets of the plan have not been included in the City's financial statements.

3. Firefighters' Relief and Retirement Fund

The City provides pension coverage for all its volunteer firemen through contributions to the Firefighters' Relief and Retirement Fund (the "Plan") administered by the Firemen's Pension Commission of Texas.

This Plan was created by Senate Bill No. 411 and is not applicable to a public agency whose governing body exempted itself from its operation within 60 days of August 28, 1977. Membership in this Plan is restricted to volunteer firemen who serve without remuneration.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

The City contributes the minimum of \$12 per month for each active firefighter starting on the date the firefighter enters the system. The Plan provides that the State is to contribute the sum necessary to make the fund actuarially sound each year. The State's contribution is limited to one-third of the total contributions of the governing bodies in one year. The State Board of Trustees and the Firemen's Pension Commissioner have stated their policy is to bring each individual municipality into the system on an actuarially sound basis without the need for State supplementation. The State has not made any contributions since the enactment date.

Upon the attainment of age 55, a member who is vested may retire and receive a monthly pension equal to six times the City's monthly contribution multiplied by the member vesting percentage. The vesting percentage is 25 percent with five years of service and each subsequent year of service adds another five percent so that after ten years the member is 50 percent vested. Thereafter, each year of service adds ten percent to the vesting percentage until the member becomes fully vested with 15 years of service. For each year of service over 15, an additional seven percent, compounded annually, is added. The Plan also provides for on-duty and off-duty death and disability benefits, as well as monthly pensions for spouses and minor children.

E. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2012, the City offered the supplemental death benefit to both active and retired employees.

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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

The City's contribution to the TMRS SDBF for the fiscal years ended 2012, 2011, and 2010 were \$5,376, \$7,080, and \$6,419 respectively. The City's contribution rates for the past three years are shown below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.04%
Actual Contribution Made	0.03%	0.03%	0.04%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

F. Restatement

The beginning net assets for governmental activities and the beginning fund balance of the general fund have been restated by \$50,935 in order to recognize intergovernmental revenue in the proper period. The beginning net assets for governmental activities and the beginning fund balance of the library and civic center fund have been restated by \$8,477 in order to remove accrued interest receivable. The beginning net assets for governmental activities have been restated by \$55,249 in order to record the beginning net pension asset.

The beginning net assets for business-type activities have been restated by \$43,636 in order to recognize intergovernmental revenue in the proper period, by \$50,464 in order to remove accrued interest payable, and by \$12,465 in order to record the beginning net pension asset.

The beginning net assets for the component unit have been restated by \$26,445 in order to remove fully depreciated capital assets.

See below for a reconciliation of change in beginning net assets/fund balance:

	<u>Governmental Funds</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Beginning net assets/fund balance	\$ 7,432,951	7,411,003	\$ 13,872,149	\$ 1,394,227
Intergovernmental revenue	50,935	50,935	43,636	-
Accrued interest receivable	(8,477)	(8,477)	-	-
Accrued interest payable	-	-	50,464	-
Capital assets	-	-	-	(26,455)
Net pension asset	-	55,249	12,465	-
Beginning net assets/fund balance - restated	<u>\$ 7,475,409</u>	<u>\$ 7,508,710</u>	<u>\$ 13,978,714</u>	<u>\$ 1,367,772</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	
Revenues				
Property tax	\$ 3,183,838	\$ 3,199,949	\$ 3,056,443	\$ (143,506)
Sales tax	875,000	1,263,882	1,263,882	-
Franchise and local taxes	351,500	439,109	439,617	508
Licenses and permits	35,439	35,439	28,625	(6,814)
Intergovernmental	-	415,112	372,834	(42,278)
Fines and forfeitures	190,411	249,088	260,989	11,901
Charges for services	184,300	190,140	119,985	(70,155)
Investment income	40,100	40,100	39,767	(333)
Contributions and donations	-	-	2,050	2,050
Payments in lieu of taxes	180,000	213,463	213,463	-
Other revenue	24,000	24,726	76,708	51,982
Total Revenues	<u>5,064,588</u>	<u>6,071,008</u>	<u>5,874,363</u>	<u>(196,645)</u>
Expenditures				
Current:				
General government	998,318	1,756,046	2,570,827	(814,781) *
Public safety	2,009,226	2,078,109	2,064,095	14,014
Public works	1,046,831	1,255,014	1,248,321	6,693
Culture and recreation	399,516	456,647	423,189	33,458
Community enhancement	110,698	101,826	100,224	1,602
Civic center	299,936	289,620	276,644	12,976
Capital outlay	-	-	7,092	(7,092) *
Debt Service:				
Principal	32,324	32,324	83,848	(51,524) *
Debt issuance costs	-	20,000	20,000	-
Total Expenditures	<u>4,896,849</u>	<u>5,989,586</u>	<u>6,794,240</u>	<u>(804,654)</u>
Revenues Over (Under) Expenditures	<u>167,739</u>	<u>81,422</u>	<u>(919,877)</u>	<u>(1,001,299)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	17,803	17,803
Transfers (out)	-	(4,436)	(4,436)	-
Bonds issued	-	700,000	700,000	-
Net Change in Fund Balance	<u>\$ 167,739</u>	<u>\$ 776,986</u>	<u>(206,510)</u>	<u>\$ (983,496)</u>
Beginning fund balance			5,623,485	
Ending Fund Balance			<u>\$ 5,416,975</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF DAYTON, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2012

Fiscal Year	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 3,995,813	\$ 3,458,492	\$ 2,394,018
Actuarial Accrued Liability	\$ 4,669,323	\$ 4,241,342	\$ 3,909,884
Percentage Funded	85.6%	81.5%	61.2%
Unfunded Actuarial			
Accrued Liability	\$ 673,510	\$ 782,850	\$ 1,515,866
Annual Covered Payroll	\$ 2,822,712	\$ 2,633,372	\$ 2,551,162
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	23.9%	29.7%	59.4%
Net Pension Obligation (NPO)/(Asset)			
(NPA) at the Beginning of Period	\$ (67,714)	\$ (50,346)	\$ -
Annual Pension Cost (APC)	187,625	271,502	207,242
Contributions Made	188,291	288,870	257,588
NPO (Asset) at the End of Period	<u>\$ (68,380)</u>	<u>\$ (67,714)</u>	<u>\$ (50,346)</u>

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

CITY OF DAYTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Property tax	\$ 1,429,172	\$ 1,429,172	\$ 1,467,107	\$ 37,935
Investment income	10,150	10,150	11,521	1,371
Total Revenues	<u>1,439,322</u>	<u>1,439,322</u>	<u>1,478,628</u>	<u>39,306</u>
Expenditures				
Principal	1,290,000	1,290,000	1,290,000	-
Interest and fiscal charges	601,085	736,466	736,016	450
Total Expenditures	<u>1,891,085</u>	<u>2,026,466</u>	<u>2,026,016</u>	<u>450</u>
(Deficiency) of Revenues				
(Under) Expenditures	<u>(451,763)</u>	<u>(587,144)</u>	<u>(547,388)</u>	<u>38,856</u>
Other Financing Sources				
Transfers in	479,635	479,635	604,194	124,559
Total Other Financing Sources	<u>479,635</u>	<u>479,635</u>	<u>604,194</u>	<u>124,559</u>
Net Change in Fund Balance	<u>\$ 27,872</u>	<u>\$ (107,509)</u>	56,806	<u>\$ 163,415</u>
Beginning fund balance			<u>1,475,771</u>	
Ending Fund Balance			<u>\$ 1,532,577</u>	

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Hotel and Motel Tax Fund

The hotel/motel tax fund accounts for revenues derived from the City's hotel/motel tax for which the expenditures are legally restricted for enhancement and promotion of tourism for the convention and hotel industry within the City and vicinity.

Community Development Block Grant

This fund is used to account for the grant revenues received from the Federal Emergency Management Agency to improve drainage on Waco Street due to Hurricane Rita.

Library and Civic Center

This fund is used to account for the construction of a new library and civic center for use by the citizens of Dayton.

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CITY OF DAYTON, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	Special Revenue			Total Funds
	Hotel and Motel Tax	Community Development	Library and Civic Center	
<u>Assets</u>				
Cash and cash equivalents	\$ 185,706	\$ -	\$ -	\$ 185,706
Receivables, net	7,305	-	-	7,305
Total Assets	\$ 193,011	\$ -	\$ -	\$ 193,011
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable and accrued liabilities	\$ 2,423	\$ -	\$ -	\$ 2,423
Total Liabilities	2,423	-	-	2,423
Fund Balances				
Restricted:				
Tourism	190,588	-	-	190,588
Total Fund Balances	190,588	-	-	190,588
Total Liabilities and Fund Balances	\$ 193,011	\$ -	\$ -	\$ 193,011

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CITY OF DAYTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	Special Revenue			Total Funds
	Hotel and Motel Tax	Community Development	Library and Civic Center	
Revenues				
Franchise and local taxes	\$ 75,731	\$ -	\$ -	\$ 75,731
Intergovernmental	-	118,964	-	118,964
Investment income	1,089	-	576	1,665
Total Revenues	76,820	118,964	576	196,360
Expenditures				
General government	-	5,950	-	5,950
Community enhancement	32,250	115,407	-	147,657
Tourism promotion	21,024	-	-	21,024
Total Expenditures	53,274	121,357	-	174,631
Revenues Over (Under) Expenditures	23,546	(2,393)	576	21,729
Other Financing (Uses)				
Operating transfers (out)	-	(82,702)	(124,592)	(207,294)
Total Other Financing (Uses)	-	(82,702)	(124,592)	(207,294)
Net Change in Fund Balances	23,546	(85,095)	(124,016)	(185,565)
Beginning fund balances	167,042	85,095	124,016	376,153
Ending Fund Balances	\$ 190,588	\$ -	\$ -	\$ 190,588

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