

CITY OF CENTER  
Center, Texas  
ANNUAL FINANCIAL REPORT  
September 30, 2011

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CITY OF CENTER, TEXAS  
PRINCIPAL CITY OFFICIALS  
September 30, 2011

GOVERNING BODY

Honorable David Chadwick, Mayor

CITY COUNCIL

James W. Forbes - At-Large (Mayor Protem)

Leigh Porterfield - At Large

Joyce Johnson - District 1

Charlie Byndom, Jr. - District 2

Chuck Lunsford - District 3

Charles Rushing - District 4

OTHER PRINCIPAL OFFICIALS

Chad Nehring..... City Manager  
Robin Folsom Andrews ..... Finance Director  
Barbara Boyd..... City Secretary

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Center  
Center, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Center, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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 opinion.

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 units, each major fund, and the aggregate remaining fund information of the City of Center, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2012, on our consideration of City of Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis on pages 6 through 13, and the budgetary comparison schedule for the General Fund are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center's basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

  
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
May 3, 2012



## Management's Discussion and Analysis

As management of the City of Center, Texas, we offer readers of the City of Center's financial statements this narrative overview and analysis of the financial activities of the City of Center (City) for the fiscal year ended September 30, 2011.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$25,831,149 (*net assets*). Of this amount, 10.7% or \$2,738,227 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,653,425, an increase of \$301,557 from the prior year.
- At the end of the current fiscal year, fund balance for the general fund was \$1,450,426 or 25.4% of total general fund expenditures and increased \$252,894 during this fiscal year.
- The net assets of the Utility fund increased by \$336,855 to \$12,864,852.
- The Utility Fund operating revenues exceeded expenses by \$377,618.
- The combined non-major governmental funds experienced an increase in fund balance of \$48,663.

### Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, culture and recreation, planning and community development, sanitation and public facilities. The business-type activities of the City include water and sewer utility services.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 of Center maintains thirteen 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 Civic Center Construction Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds, including the Debt Service Fund, is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, and special revenue funds - Trust Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budget.

**Proprietary Funds.** The City maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer utility service. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City currently uses no internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer utility service, which is considered to be a major fund of the City of Center.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Center's progress in funding its obligations to provide retirement benefits to its employees. This required supplementary information can be found in the notes to financial statements on pages 38-40 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found of pages 46-52 of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$25,831,149 at the close of fiscal year 2011. This represents an increase of \$2,549,621 over the 2010 assets over liabilities of \$23,281,528.

By far the largest portion of the City's net assets 88.3% reflects its investment in capital assets (e.g., land, buildings, vehicles and equipment), less the outstanding balance of related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Center's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Center's Combined Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 2 771 379	\$ 2 253 486	\$ 1 319 594	\$ 1 462 244	\$ 4 090 973	\$ 3 715 730
Capital assets (net of depreciation)	15 645 146	14 252 539	13 795 242	13 725 811	29 440 388	27 978 350
Total Assets	<u>18 416 525</u>	<u>16 506 025</u>	<u>15 114 836</u>	<u>15 188 055</u>	<u>33 531 361</u>	<u>31 694 080</u>
Long-term liabilities outstanding	4 435 172	4 422 259	1 471 792	1 900 062	5 906 965	6 322 321
Other liabilities	1 015 056	1 330 235	778 192	759 996	1 793 247	2 090 231
Total Liabilities	<u>5 450 228</u>	<u>5 752 494</u>	<u>2 249 984</u>	<u>2 660 058</u>	<u>7 700 212</u>	<u>8 412 552</u>
Net Assets:						
Invested in capital assets, net of related debt	10 895 719	9 555 202	11 922 946	11 425 077	22 818 665	20 980 279
Restricted	274 557	270 688	-	-	274 557	270 688
Unrestricted	1 796 021	927 641	942 206	1 102 920	2 738 227	2 030 561
Total Net Assets	<u>\$ 12 966 297</u>	<u>\$ 10 753 531</u>	<u>\$ 12 864 852</u>	<u>\$ 12 527 997</u>	<u>\$ 25 831 149</u>	<u>\$ 23 281 528</u>

An additional minor portion of the City's net assets, \$274,557 (1.1%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,738,227, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, and for its separate governmental and business-type activities. Values for newly constructed, major infrastructure (i.e. streets, drainage) are now included in the value of capital assets.



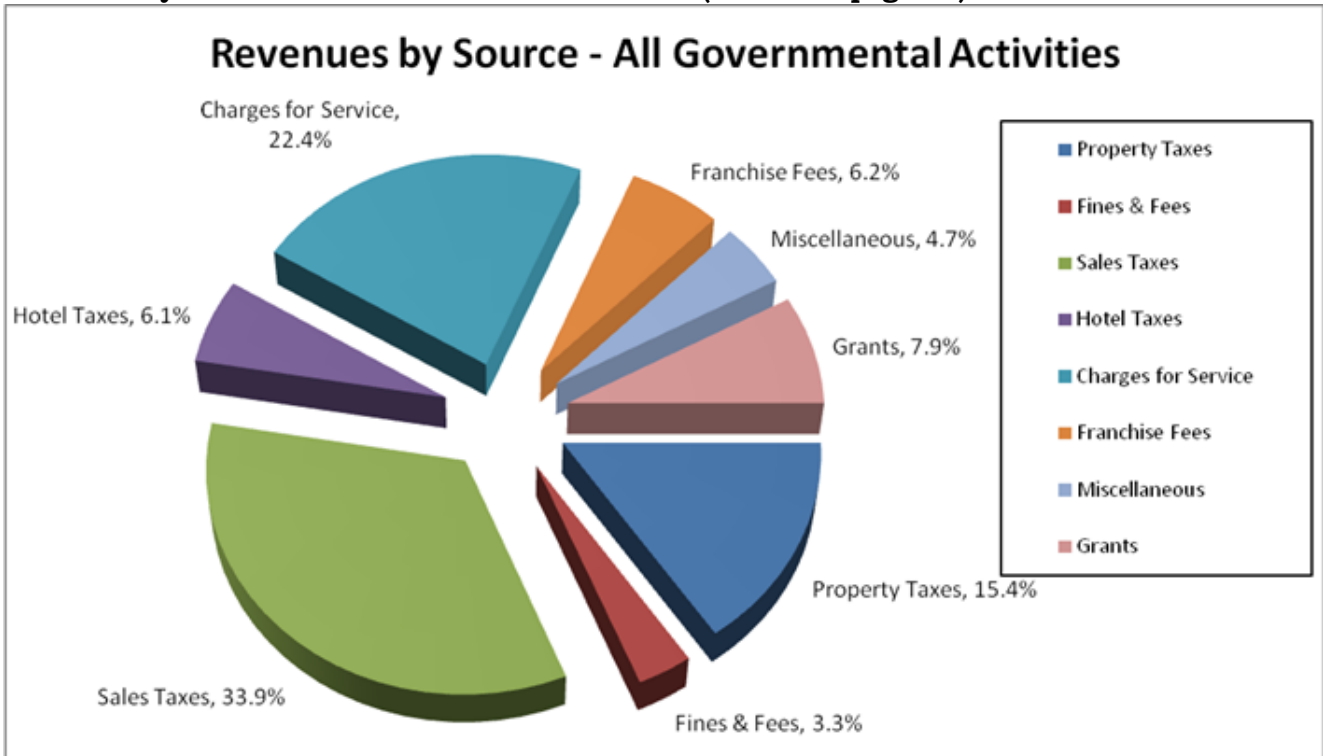
## City of Center's Change in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program Revenues:						
Charges for services	\$ 1 864 854	\$ 1 759 928	\$ 3 371 747	\$ 3 378 490	\$ 5 236 601	\$ 5 138 418
Operating grants and contributions	577 396	52 128	-	-	557 396	52 128
Capital grants and contributions	619 166	1 734 676	442 463	191 628	1 061 629	1 926 304
General Revenues:						
Property taxes	1 197 760	1 100 137	-	-	1 197 760	1 100 137
Other taxes	3 349 038	2 758 960	-	-	3 349 038	2 758 960
Other	339 164	117 126	6 599	12 713	345 763	129 839
Total Revenues	<u>7 947 378</u>	<u>7 522 955</u>	<u>3 820 809</u>	<u>3 582 831</u>	<u>11 768 187</u>	<u>11 105 786</u>
Expenses:						
General government	984 140	920 189	-	-	984 140	920 189
Public safety	2 306 498	2 195 458	-	-	2 306 498	2 195 458
Community services	1 250 186	714 748	-	-	1 250 186	714 748
Streets and drainage	691 510	722 962	-	-	691 510	722 962
Sanitation	1 001 916	1 131 102	-	-	1 001 916	1 131 102
Inspections	167 885	175 039	-	-	167 885	175 039
Interest on long-term debt	128 170	213 271	-	-	128 170	213 271
Water and sewer	-	-	3 177 558	2 997 078	3 177 558	2 997 078
Total Expenses	<u>6 530 305</u>	<u>6 072 769</u>	<u>3 177 558</u>	<u>2 997 078</u>	<u>9 707 863</u>	<u>9 069 847</u>
Transfers	281 396	178 377	(306 396)	(172 795)	(25 000)	5 582
Increase (decrease) in net assets	1 698 469	1 628 563	336 855	412 958	2 035 324	2 041 521
Net assets, restated	11 267 828	9 124 968	12 527 997	12 115 039	23 795 825	21 240 007
Net Assets, Ending	<u>\$ 12 966 297</u>	<u>\$ 10 753 531</u>	<u>\$ 12 864 852</u>	<u>\$ 12 527 997</u>	<u>\$ 25 831 149</u>	<u>\$ 23 281 528</u>

**Governmental Activities.** Governmental activities increased the City of Center's net assets by \$1,698,469. Key elements of this increase are as follows:

- Governmental Fund Revenues exceeded Expenses by \$1,698,469 including:
  - Current year revenues \$424,423 over prior year revenues; primarily from a major increase in sales tax revenues.
  - Current year expenses are \$457,536 higher than prior year expenses;
    - Major expense changes include:
      - Repayment of the 1998 Texas Capital Fund Grant, \$301,000
      - HOME Grant Program expenses, \$380,630

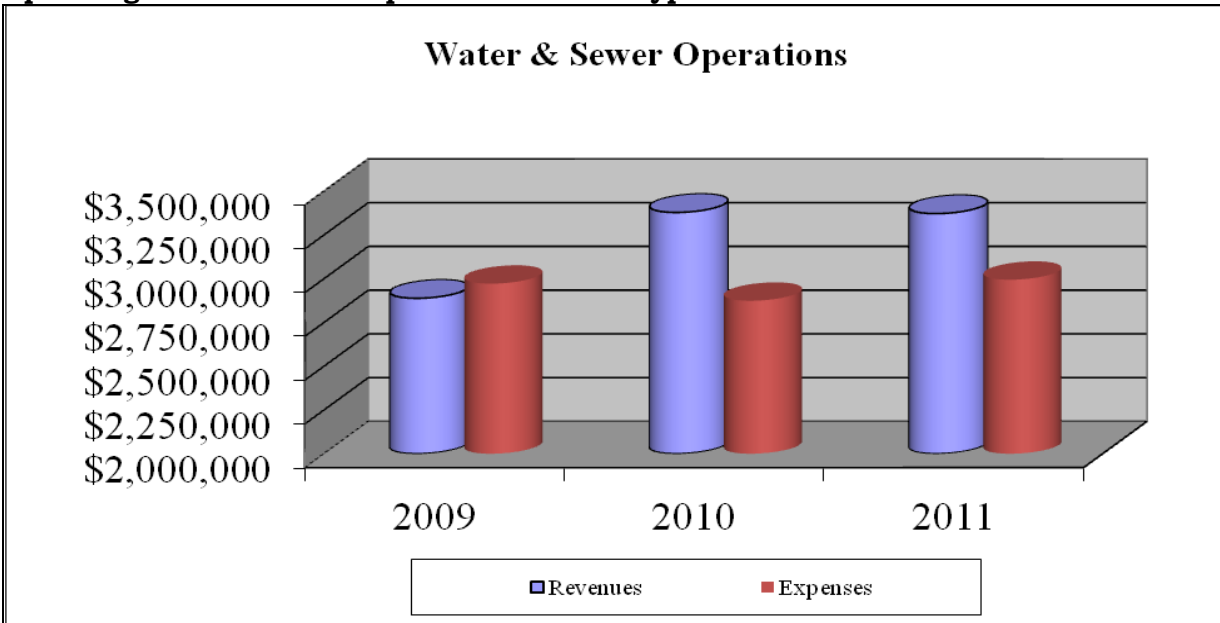
**Revenues by Source - All Governmental Activities (reference page 19)**



**Business-Type Activities.** Business-type activities increased the total government's net assets by \$336,855. Key elements of this increase are as follows:

- Operating revenues exceeded expenses by \$377,618.
- Net income is \$200,788.
- Revenues from utility charges decreased by \$27,444 from the prior year.
- Water revenues increased by \$38,227.
- Sewer revenues decreased by \$65,671.
- Operational transfers accounted for \$306,396.
- Grants and capital contributions amounted to \$442,463.

**Operating Revenues and Expenses - Business-type Activities**



## Financial Analysis of the Government's Funds

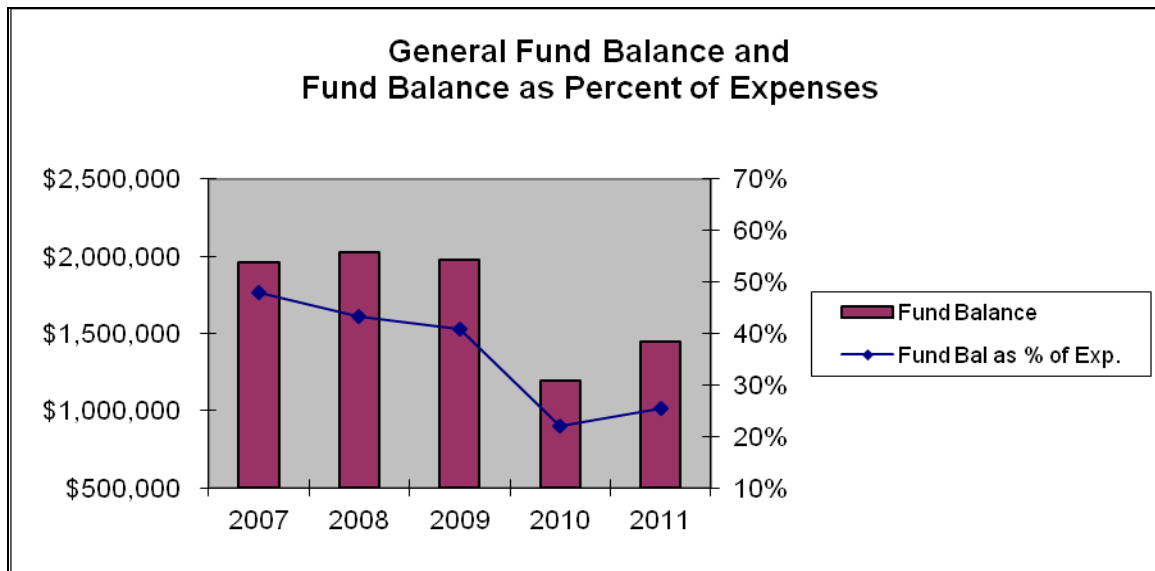
As noted earlier, the City of Center uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Center's governmental funds reported combined ending fund balances of \$1,653,425, an increase of \$301,557 from the prior year.

Approximately 83% of this total amount, \$1,365,902, constitutes *unreserved fund balance*, which is available for spending at the government's discretion an increase from prior year balance of \$1,351,868. The remaining 17% of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service and 2) for perpetual care of cemeteries.

The general fund is the chief operating fund of the City of Center. At the end of the current fiscal year, total general fund balance was \$1,450,426. The fund balance of the City's general fund increased by \$252,894 during the current fiscal year. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 25.4% of total general fund expenditures.



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

Unrestricted net assets of the Water and Sewer Utility Fund at the end of the current fiscal year are \$942,206. The increase in net assets for Water and Sewer Utility totaled \$336,855. The exceptional drought of 2011 in conjunction with the high water demand necessitated the use of fund assets toward major maintenance and equipment replacement. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

Differences in the original and the final amended budget accounted for \$661,418 in increased revenues. Differences in the original and the final amended budget expenditures amounted to \$393,108 in increased appropriations.

A review of the final amended budget compared to actual revenues/expenditures presents a number of variances. Total revenues increased from the original budget by \$751,348 but increased from the final amended budget by \$89,930. Total expenditures increased from original budget by \$402,808 but from the final amended budget by \$9,700. After transfers to and from other funds these adjustments produced an increase in the fund balance of \$252,894.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City of Center's investment in capital assets for its governmental and business-type activities amounts to \$29,440,388 (net of accumulated depreciation) at the end of the current fiscal year increasing from last year's amount of \$27,978,350. This investment in capital assets includes land, buildings, improvements, vehicles and equipment. Due to the size of the City, past asset valuations for major infrastructure (streets, bridges, drainage, etc.) are not required to comply with new reporting requirements, however beginning in fiscal year 2004, the City began prospectively accumulating values for these major capital assets.

Major capital asset events during the current fiscal year included the following:

#### Governmental

- Airport - T-hangars by 80%/20% Grant - \$619,166
  - Total Project - \$787,006
- Civic Center Drive Installation (TIRZ Fund) - \$380,215
  - Total Project - \$409,035
- Accepted Dedication of Street Improvements from Street EDC - \$605,930
- Additional Street/Drainage Improvements (College St.) - \$7,503
- Fleet Vehicles:
  - Police Department - Two Patrol Units - \$51,692
  - Fire Department - Martin Pumper Truck - \$239,505
  - Street Department - Dump Truck - \$62,760

#### Business-type

- 2008 TCDP Project - Sewer Extension/1<sup>st</sup> Time Service - \$43,246
  - Total Project - \$282,153
- Sewer Collection System Planning/TWDB Project - \$107,835
  - Total Project - \$212,367
- Continued meter reading system upgrades - Meter replacements & equipment - \$44,892
  - Total Project to date - \$622,211
- Generators Grant Project (Disaster Recovery Funds) - \$132,814
  - Total Project - \$271,328
- Loop 500 Water Line Extension - \$3,751
  - Total Project - \$50,161
- US 96 Lift Station Rehab - \$7,473
  - Total Project - \$97,925
- Water (irrigation) Wells #1 & #2 at Mill Creek Dam - \$51,523
- Purchased one Fleet Vehicle (Water Dept.) - \$15,950
- Generator - Wastewater Treatment Plant - \$31,986
- Pavement Repair at Wastewater Treatment Plant - \$54,988

**City of Center's Capital Assets  
(net of depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ -	\$ -	\$ 592 783	\$ 592 783	\$ 592 783	\$ 592 783
Buildings	7 054 638	6 637 940	-	-	7 054 638	6 637 940
Improvements other than buildings	1 074 317	1 140 878	-	-	1 074 317	1 140 878
Machinery and equipment	677 369	474 048	520 833	528 509	1 198 202	1 002 557
Buildings and systems	-	-	12 039 020	12 080 972	12 039 020	12 080 972
Infrastructure	6 630 233	5 948 982	-	-	6 630 233	5 948 982
Construction in progress	208 589	50 691	642 606	523 547	851 195	574 238
Total	\$ 15 645 146	\$ 14 252 539	\$ 13 795 242	\$ 13 725 811	\$ 29 440 388	\$ 27 978 350

Additional information on the City of Center's capital assets can be found in note 3. C. on pages 33-34 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City of Center had total bonded debt outstanding of \$5,950,000 decreased from last year's total bonded debt of \$6,580,000. All is backed by the full faith and credit of the government.

**Short-Term Notes Payable** - This fiscal year, short-term notes payable include the addition of a note by the City's Tax Increment Reinvestment Fund to the Center Economic Development Corporation.

**City of Center's Outstanding Debt**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 4 340 000	\$ 4 600 000	\$ 1 610 000	\$ 1 980 000	\$ 5 950 000	\$ 6 580 000
Compensated absences	83 448	82 259	32 255	27 466	115 703	109 725
Notes payable	409 427	-	262 596	308 807	672 023	308 807
Total	\$ 4 832 875	\$ 4 682 259	\$ 1 904 851	\$ 2 316 273	\$ 6 737 726	\$ 6 998 532

The City of Center's debt issuance rating by Moody's was upgraded in 2007 from a rating of "Baa2" to a rating of "A2". This pertains to the current debt issuances for general obligation and any other bonded debt. This rating was reaffirmed by Moody's in 2011.

As a Home Rule City, the City of Center, Texas is not limited by law in the amount of debt it may issue.

Additional information on the City's long-term debt can be found in note 3. D. on pages 34-35 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate as of September, 2011 for Shelby County, according to Texas Workforce Commission statistics, is 7.9%. The Texas unemployment rate for September 2011, according to the Texas Workforce Commission is 8.4% and 9.6% for the Deep East Texas Region.
- The state sales tax receipts, including only the 1¼% for governmental purposes for the current fiscal year, totaled \$2,385,022 an increase of \$520,112 or (28%) from the previous year (\$1,864,890), indicating a robust retail economy despite national and state economic trends. The continued growth of retail outlets has produced increases in overall retail sales, particularly industrial retail operations.
- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the City of Center's budget for the 2012 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Center's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Secretary, P. O. Box 1744, 617 Tenaha Street, City of Center, Texas, 75935-1744.

FINANCIAL STATEMENTS

CITY OF CENTER, TEXAS  
STATEMENT OF NET ASSETS  
September 30, 2011

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATIONS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1 823 221	\$ 402 214	\$ 2 225 435	\$ 1 613 382
Receivables (net)	620 039	447 393	1 067 432	417 570
Due from other governments	208 501	72 325	280 826	125 700
Due from component units	-	1 000	1 000	-
Prepaid expenses	39 732	-	39 732	-
Inventories	44 792	89 566	134 358	-
Capitalized bond issue cost	35 094	-	35 094	8 402
Restricted Assets:				
Cash and cash equivalents	-	300 842	300 842	175 496
Deferred asset	-	6 254	6 254	-
Capital assets (net of accumulated depreciation)	15 645 146	13 795 242	29 440 388	11 043
<b>TOTAL ASSETS</b>	<u>18 416 525</u>	<u>15 114 836</u>	<u>33 531 361</u>	<u>2 351 593</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	518 420	114 066	632 486	1 459
Accrued liabilities	62 097	11 520	73 617	-
Deferred revenue	-	80 000	80 000	-
Due to primary government	56 185	-	56 185	1 000
Accrued interest payable	32 668	9 760	42 428	1 198
Premium on bond issue	31 431	-	31 431	-
Customer deposits payable	-	129 787	129 787	-
Noncurrent Liabilities:				
Due within one year	314 254	433 059	747 313	270 000
Due in more than one year	4 435 173	1 471 792	5 906 965	-
<b>TOTAL LIABILITIES</b>	<u>5 450 228</u>	<u>2 249 984</u>	<u>7 700 212</u>	<u>273 657</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10 895 719	11 922 946	22 818 665	-
Restricted for:				
Debt service	139 849	-	139 849	175 000
Perpetual care	134 708	-	134 708	-
Unrestricted	1 796 021	942 206	2 738 227	1 902 936
<b>TOTAL NET ASSETS</b>	<u>\$ 12 966 297</u>	<u>\$ 12 864 852</u>	<u>\$ 25 831 149</u>	<u>\$ 2 077 936</u>

The notes to financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2011

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 984 140	\$ 49 083	\$ 40 303	\$ -
Public safety	2 306 498	241 872	96 887	-
Community services	1 250 186	278 011	440 206	619 166
Streets and drainage	691 510	-	-	-
Sanitation	1 001 916	1 295 888	-	-
Inspections	167 885	-	-	-
Interest on long-term debt	128 170	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	6 530 305	1 864 854	577 396	619 166
Business-Type Activities:				
Water and sewer fund	3 177 558	3 371 747	-	442 463
TOTAL BUSINESS-TYPE ACTIVITIES	3 117 558	3 371 747	-	442 463
 TOTAL PRIMARY GOVERNMENT	 \$ 9 707 863	\$ 5 236 601	\$ 577 396	\$ 1 061 629
 Component Units:				
Economic Development	\$ 774 732	\$ -	\$ -	\$ -
Economic Development Street Improvement	640 097	-	-	-
TOTAL COMPONENT UNITS	\$ 1 414 829	\$ -	\$ -	\$ -
 General Revenues:				
Taxes:				
Property taxes				
Other taxes and permits				
Unrestricted investment earnings				
Other unrestricted revenue				
Transfers				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
 Net assets - Before restated				
Prior period adjustment				
Net assets - As restated				
 NET ASSETS - ENDING				

The notes to financial statements are an integral part of this statement.



NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	ECONOMIC DEVELOPMENT CORPORATIONS
\$ (894 754)	\$ -	\$ (894 754)	\$ -
(1 967 739)	-	(1 967 739)	-
87 197	-	87 197	-
(691 510)	-	(691 510)	-
293 972	-	293 972	-
(167 885)	-	(167 885)	-
(128 170)	-	(128 170)	-
<u>(3 468 889)</u>	<u>-</u>	<u>(3 468 889)</u>	<u>-</u>
<u>-</u>	<u>636 652</u>	<u>636 652</u>	<u>-</u>
<u>-</u>	<u>636 652</u>	<u>636 652</u>	<u>-</u>
<u>(3 468 889)</u>	<u>636 652</u>	<u>(2 832 237)</u>	<u>-</u>
-	-	-	(774 732)
-	-	-	(640 097)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1 414 829)</u>
1 197 760	-	1 197 760	-
3 349 038	-	3 349 038	1 431 226
51 971	6 599	58 570	29 041
287 193	-	287 193	-
281 396	(306 396)	(25 000)	-
<u>5 167 358</u>	<u>(299 797)</u>	<u>4 867 561</u>	<u>1 460 267</u>
<u>1 698 469</u>	<u>336 855</u>	<u>2 035 324</u>	<u>45 438</u>
10 753 531	12 527 997	23 281 528	2 032 498
514 297	-	514 297	-
<u>11 267 828</u>	<u>12 527 997</u>	<u>23 795 825</u>	<u>2 032 498</u>
\$ <u>12 966 297</u>	\$ <u>12 864 852</u>	\$ <u>25 831 149</u>	\$ <u>2 077 936</u>

CITY OF CENTER, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
September 30, 2011

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1 219 141	\$ 604 080	\$ 1 823 221
Receivables (Net of Uncollectibles):			
Taxes	154 350	-	154 350
Accounts	177 570	-	177 570
Court fines receivable	57 977	-	57 977
Governmental agencies	208 501	-	208 501
Sundry	228 142	2 000	230 142
Due from other funds	193 434	150 000	343 434
Prepaid expenses	39 732	-	39 732
Inventories	44 792	-	44 792
<b>TOTAL ASSETS</b>	<b>\$ 2 323 639</b>	<b>\$ 756 080</b>	<b>\$ 3 079 719</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 455 378	\$ 63 042	\$ 518 420
Accrued liabilities	62 097	-	62 097
Due to other funds	61 580	338 039	399 619
Due to component units	-	-	-
Deferred revenue	294 158	152 000	446 158
<b>TOTAL LIABILITIES</b>	<b>873 213</b>	<b>553 081</b>	<b>1 426 294</b>
Fund Balances:			
Non-spendable	84 524	-	84 524
Restricted For:			
Debt service	-	139 849	139 849
Grants	-	(71 558)	(71 558)
Other purposes	-	134 708	134 708
Unassigned:			
General fund	1 365 902	-	1 365 902
<b>TOTAL FUND BALANCES</b>	<b>1 450 426</b>	<b>202 999</b>	<b>1 653 425</b>
<b>TOTAL LIABILITIES AND     FUND BALANCES</b>	<b>\$ 2 323 639</b>	<b>\$ 756 080</b>	

Amounts Reported for Governmental Activities in the  
Statement of Net Activities are Different Because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15 645 146
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	446 158
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4 778 432)
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 12 966 297</b>

The notes to financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2011

	<u>GENERAL</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Revenues:			
General property taxes	\$ 778 174	\$ 340 814	\$ 1 118 988
Other local taxes and permits	2 903 529	445 509	3 349 038
Fines and fees	226 477	15 395	241 872
Charges for services	1 622 982	-	1 622 982
Contributions and grants	135 490	440 218	575 708
Miscellaneous	32 196	306 968	339 164
TOTAL REVENUES	<u>5 698 848</u>	<u>1 548 904</u>	<u>7 247 752</u>
Expenditures:			
General government	961 940	-	961 940
Public safety	2 452 006	10 796	2 462 802
Community services	663 163	840 306	1 503 469
Streets and drainage	470 020	607 476	1 077 496
Sanitation	1 000 294	-	1 000 294
Inspections	167 885	-	167 885
Debt Service:			
Principal	-	260 000	260 000
Interest and fiscal charges	-	203 131	203 131
TOTAL EXPENDITURES	<u>5 715 308</u>	<u>1 921 709</u>	<u>7 637 017</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(16 460)</u>	<u>(372 805)</u>	<u>(389 265)</u>
Other Financing Sources (Uses):			
Note proceeds	-	409 426	409 426
Transfers in	373 357	272 517	645 874
Transfers (out)	(104 003)	(260 475)	(364 478)
TOTAL OTHER FINANCING SOURCES (USES)	<u>269 354</u>	<u>421 468</u>	<u>690 822</u>
NET CHANGE IN FUND BALANCES	<u>252 894</u>	<u>48 663</u>	<u>301 557</u>
Fund balances at beginning of year	1 197 532	(359 961)	837 571
Prior period adjustment to fund balance	-	514 297	514 297
Fund balance, beginning of year (restated)	<u>1 197 532</u>	<u>154 336</u>	<u>1 351 868</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1 450 426</u>	<u>\$ 202 999</u>	<u>\$ 1 653 425</u>

The notes to financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2011

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net change in fund balances - Total governmental funds	\$	301 557
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		1 392 607
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		78 772
The issuance of long-term debt (e.g., bonds, notes) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(74 466)
Rounding		<u>(1)</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>1 698 469</u></b>

The notes to the financial statements are an integral part of this statement.

CITY OF CENTER  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
September 30, 2011

	BUSINESS-TYPE ACTIVITIES
	WATER AND SEWER FUND
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 402 214
Receivables (Net):	
Accounts	420 892
Sundry	26 501
Due from other governments	72 325
Due from component units	1 000
Inventories	89 566
TOTAL CURRENT ASSETS	1 012 498
Noncurrent Assets:	
Restricted cash	300 842
Deferred charges	6 254
Capital Assets:	
Land	592 783
Utility systems	25 989 665
Equipment	2 621 814
Construction in progress	642 606
Less accumulated depreciation	(16 051 626)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	13 795 242
TOTAL NONCURRENT ASSETS	14 102 338
TOTAL ASSETS	15 114 836
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	114 066
Accrued expense	11 520
Deferred revenue	80 000
Debt payable - Current	433 059
Accrued interest payable	9 760
Customer deposits payable	129 787
TOTAL CURRENT LIABILITIES	778 192
Noncurrent Liabilities:	
Compensated absences	32 255
Long term debt payable	1 439 537
TOTAL NONCURRENT LIABILITIES	1 471 792
TOTAL LIABILITIES	2 249 984
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	11 922 646
Unrestricted	942 206
TOTAL NET ASSETS	\$ 12 864 852

The notes to the financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
Year Ended September 30, 2011

	BUSINESS-TYPE ACTIVITIES
	WATER AND SEWER FUND
Operating Revenues:	
Charges for service	\$ 3 234 425
Taps and connections	49 395
Miscellaneous	87 927
TOTAL OPERATING REVENUES	3 371 747
Operating Expenses:	
Nondepartmental	37 902
Public works	160 577
Water production	1 212 160
Water distribution	263 807
Sewer collection	191 382
Sewer treatment	443 571
Depreciation	684 730
TOTAL OPERATING EXPENSES	2 994 129
OPERATING INCOME	377 618
Nonoperating Revenues (Expenses):	
Income from investments	6 599
Interest and fiscal fees	(183 429)
TOTAL NONOPERATING REVENUES (EXPENSES)	(176 830)
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS	200 788
Grants and capital contribution	442 463
Operating transfers in (out)	(306 396)
TOTAL NET OPERATING TRANSFERS	136 067
CHANGE IN NET ASSETS	336 855
Beginning net assets	12 527 997
NET ASSETS, END OF YEAR	\$ 12 864 852

The notes to financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended September 30, 2011

	BUSINESS-TYPE ACTIVITIES
	WATER AND SEWER FUND
Cash Flows from Operating Activities:	
Received from customers	\$ 3 362 591
Payments to suppliers	(1 425 137)
Payments to employees	(943 931)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	993 523
Cash Flows from Noncapital Financing Activities:	
Operating transfers in (out)	(306 396)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(306 396)
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(320 398)
Capital grant	6 700
Principal paid on debt	(416 211)
Interest paid on debt	(185 596)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(915 505)
Cash Flows from Investing Activities:	
Interest on investments	6 599
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	6 599
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(221 779)
Cash at beginning of year	924 835
CASH AT END OF YEAR	\$ 703 056

Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities

Operating income (loss)	\$ 377 618
Adjustments:	
Depreciation	684 730
Changes in:	
Accounts receivable	(54 048)
Inventory	(25 057)
Deferred charges	1 976
Accounts payable	27 486
Accrued expense	(31 413)
Accrued compensated absences	4 789
Customer deposits	7 442
NET CASH PROVIDED (USED BY) OPERATING ACTIVITIES	\$ 993 523

The notes to the financial statements are an integral part of this statement.

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Center, Texas was incorporated in 1900. The City operates under a Home Rule Charter adopted April 7, 1984 under Section 5, Article XI of the Texas Constitution as a Council-Manager form of government under the provisions of the charter and the V.T.C.A., Local Government Code.

The accounting policies of the City of Center, Texas conform to generally accepted accounting principles as applicable to governments. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies:

A. Reporting Entity:

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in government-wide financial statements (see note below for description) to emphasize that they are legally separate from the government.

Individual Component Unit Disclosures:

Discretely Presented Component Units:

The City of Center Economic Development Corporation - Established in 1994, the Corporation is a 4A nonprofit industrial development corporation specifically governed by the Development Corporation Act. The purpose of the Corporation is to promote, assist, and enhance economic development. The Corporation is governed by a Board of Directors appointed by the City Council.

Complete financial statements of the Corporation can be obtained from: The City of Center Economic Development Corporation, 617 Tenaha Street, Center, Texas.

The City of Center Street Improvements for Economic Development Corporation - Established in 1996, the Corporation is a 4B nonprofit industrial development corporation specifically governed by the Development Corporation Act. The purpose of the Corporation is to promote, assist and enhance economic development by undertaking projects of street and road and related improvements. The Corporation is governed by a Board of Directors appointed by the City Council.

Complete financial statements of the Corporation can be obtained from: The City of Center Street Improvements for Economic Development Corporation, 617 Tenaha Street, Center, Texas.

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 on all of the nonfiduciary 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.



CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental funds:

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

Civic Center Construction Fund - The civic center construction fund is used to account for monies earmarked for the construction of a civic center.

Special Revenue Funds - Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs on long-term general obligation debt of governmental funds.

Permanent Fund - This fund is used to account for assets held by the City pursuant to a trust agreement. The principal portion of this fund must remain intact, but the earnings may be used to achieve the objectives of the fund.

The government reports the following proprietary funds:

Water and Sewer Fund - This fund accounts for the provision of water and sewer services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt services, and billing and collection.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments:

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

The City's investment policies are governed by state statutes and city ordinances. Permissible investments include direct obligations of the U. S. Government, certificates of deposit and savings accounts. Collateral is required for demand deposits and certificates of deposits of all amounts not covered by federal deposit insurance.

The Center Economic Development Corporation and the Center Street Improvements for Economic Development are authorized by their governing board to invest in obligations of the U. S. Government, certificates of deposit and savings accounts.

Investments for the government, as well as for its component units, are reported at fair value. Collateral is required for demand deposits and certificates of deposits of all amounts not covered by federal deposit insurance.

2. Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of the allowance for uncollectibles. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Property taxes are levied on October 1, attach as an enforceable lien on property on January 1, and become delinquent on June 30 of every fiscal year.

3. Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets:

Restricted assets include cash and investments or the proprietary funds that are legally restricted as to their use. The primary restricted assets are related to debt retirement, renewal and replacement, and construction activity of the Water and Sewer enterprise fund.

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Capital Assets:

All purchased capital assets are valued at cost where historical records are available and estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received or placed into service. Assets contributed by the general government to proprietary funds are valued at the lesser of their fair market value at the date of the transfer or original cost.

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.

For implementation of GASB 34 requirements for capital assets the City established the following categories and thresholds:

Land/land improvement	Any Amount
Buildings/building improvements	\$ 25 000
Facilities and other improvements	\$ 25 000
Infrastructure	\$ 25 000
Personal property	\$ 5 000
Leasehold improvements	\$ 25 000

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

The City, a Phase 3 government as described by GASB 34, has elected to not report major general infrastructure assets retroactively.

Depreciation is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Structures and water and sewer systems	10 to 50 years
Infrastructure	10 to 30 years
Transportation and other equipment	3 to 20 years

6. Compensated Absences:

The City accounts for expenditures related to sick pay when such payments are made to employees as amounts do not vest. The City accounts for all material liabilities and expenditures related to vacation pay during the fiscal year in which such benefits accrue. Employees are required to take vacation time if at all possible, and vacation time will not be allowed to be accrued more than 160 hours on an anniversary date. Sick leave can be accumulated up to 320 hours.

The City has determined that the current portion of the accrued expense for compensated absences cannot be reasonably estimated. Therefore, the total accrued expense for compensated absences is recorded as long-term debt in the financial statements.

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Long-Term Obligations:

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund Equity:

During the year ended September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the District 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 district takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the District 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.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Use of Estimates:

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

10. Subsequent Events:

Management has evaluated subsequent events through May 3, 2012, the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) The budget is legally enacted through passage of an ordinance.
- (4) The City Manager is authorized by the City Council to transfer budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any fund are approved by the City Council.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (6) The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and cash equivalents - The carrying amount of cash and investments (bank balances net of outstanding checks and deposits) as of September 30, 2011 are classified in the accompanying financial statements as follows:

Primary Government:		
Unrestricted cash and investments	\$	2 225 435
Restricted cash and investments		300 842
Component Units:		
Cash and investments		1 613 382
TOTAL CASH AND INVESTMENTS	\$	<u>4 139 659</u>

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Cash and investments as of September 30, 2011, consists of the following:

Primary Government:		
Cash on hand	\$	7 511
Deposits with financial institutions		1 576 313
Investments in LOGIC		942 453
Component Units:		
Deposits with financial institutions		1 253 207
Investments in LOGIC		360 175
TOTAL CASH AND INVESTMENTS	\$	<u>4 139 659</u>

At September 30, 2011, the total deposits (as shown on the records of the bank) for the primary government and the component units amounted to \$1,576,313 and \$1,253,207, respectively. Deposits were with the contracted depository bank, Farmers State Bank, in a combination of interest and non-interest bearing accounts and interest bearing Certificates of Deposits. The deposits were fully secured at the balance sheet date by federal depository coverage and by pledged U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of deposits.

Investments - The State Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. It requires the City to adopt, implement, and publicize an investment policy. The investment policy must address requirements outlined by the Act. Management of the City believes it is in compliance with those requirements and local policies. The City's temporary investments consist of balances held by the Local Government Investment Cooperative (LOGIC). LOGIC is an AAA rated investment pool administered by First Southwest Asset Management, Inc and JP Morgan Chase.

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

INVESTMENT TYPE	FAIR VALUE	WEIGHTED AVERAGE MATURITIES (DAYS)
Primary government - LOGIC	\$ 942 453	42
Component units - LOGIC	360 175	42
	<u>\$ 1 302 628</u>	

Although Local Government Investment Cooperative had a weighted average maturity of 42 days, the City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Interest rate risk is the risk that changes in market interest rates and will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value. The City concentrates its investments on short-term investments in order to limit market risk caused by changes in interest rates. The maximum allowed maturity of any investment by the City is three years.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The City's depository fully collateralizes the City's deposits as outlined above.

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

B. Receivables

Receivables as of year-end for the City's individual major funds including the applicable allowances for uncollectibles accounts are as follows:

	<u>GENERAL FUND</u>	<u>WATER AND SEWER FUND</u>	<u>TOTAL</u>
Receivables:			
Taxes	\$ 154 350	\$ -	\$ 154 350
Accounts	189 400	487 929	677 329
Fines	57 977	-	57 977
Other	228 142	26 501	254 643
Due from other governments	208 501	72 325	280 826
Due from component unit	-	1 000	1 000
	<u>838 370</u>	<u>587 755</u>	<u>1 426 125</u>
Less allowance for uncollectibles	<u>(9 830)</u>	<u>(67 037)</u>	<u>(76 867)</u>
 NET TOTAL RECEIVABLES	 <u>\$ 828 540</u>	 <u>\$ 520 718</u>	 <u>\$ 1 349 258</u>

The City contracts with the Texas Department of Economic Development for various economic development programs. In accordance with certain terms of the contracts, funds have been loaned to specific entities at no interest. The City is liable to the State for repayment and the entity is liable to the City for repayment. The repayment of loans is accounted for as miscellaneous revenue and expenditures. The contracts are managed in a special revenue fund. At September 30, 2011 the City has two active loans. The following is a summary of transactions for the year ended September 30, 2011.

	<u>LOANS RECEIVABLE</u>	<u>LOANS PAYABLE</u>
Balance at October 1, 2010	\$ 698 510	\$ 698 510
Loan payments received	(299 510)	-
Loans paid	-	(299 510)
Balance at September 30, 2011	<u>\$ 399 000</u>	<u>\$ 399 000</u>

The loans are comprised of the following individual issues:

1997 Texas Capital Fund, \$500,000, due in 240 monthly payments of \$2,083	\$ 208 334
1998 Texas Capital Fund, \$357,500, due in 240 monthly payments of \$1,490	<u>190 666</u>
TOTAL	<u>\$ 399 000</u>



CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Future requirements are as follows:

YEAR	PAYABLE/ RECEIVABLE
2012	\$ 42 876
2013	42 876
2014	42 876
2015	42 876
2016	42 876
2017 - 2021	184 620
	\$ 399 000

C. Capital Assets

Capital asset activity for the year ended September 30, 2011 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	TRANSFERS	ENDING BALANCE
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Construction in progress	\$ 50 691	\$ 566 933	\$ -	\$ (409 035)	\$ 208 589
TOTAL ASSETS NOT BEING DEPRECIATED	50 691	566 933	-	(409 035)	208 589
Capital Assets, Being Depreciated:					
Buildings	7 327 490	619 166	-	-	7 946 656
Improvements other than buildings	1 639 737	-	-	-	1 639 737
Vehicles and equipment	1 180 158	353 959	-	-	1 534 117
Infrastructure	7 513 111	1 020 152	-	-	8 533 263
TOTAL ASSETS BEING DEPRECIATED	17 660 496	1 993 277	-	-	19 653 773
Less Accumulated Depreciation For:					
Buildings	689 550	202 468	-	-	892 018
Improvements other than buildings	498 859	66 561	-	-	565 420
Vehicles and equipment	706 110	150 638	-	-	856 748
Infrastructure	1 564 129	338 901	-	-	1 903 030
TOTAL ACCUMULATED DEPRECIATION	3 458 648	758 568	-	-	4 217 216
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	14 201 848	1 234 709	-	-	15 436 557
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 14 252 539	\$ 1 801 642	\$ -	\$ (409 035)	\$ 15 645 146
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 592 783	\$ -	\$ -	\$ -	\$ 592 783
Construction in progress	523 547	119 059	-	-	642 606
TOTAL ASSETS NOT BEING DEPRECIATED	1 116 330	119 059	-	-	1 235 389
Capital Assets, Being Depreciated:					
Buildings and systems	25 402 498	587 166	-	-	25 989 664
Vehicles and equipment	2 573 879	47 936	-	-	2 621 815
TOTAL ASSETS BEING DEPRECIATED	27 976 377	635 102	-	-	28 611 479
Less Accumulated Depreciation For:					
Buildings and systems	13 321 526	629 117	-	-	13 950 643
Vehicles and equipment	2 045 370	55 613	-	-	2 100 983
TOTAL ACCUMULATED DEPRECIATION	15 366 896	684 730	-	-	16 051 626
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	12 609 481	(49 628)	-	-	12 559 853
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 13 725 811	\$ 69 431	\$ -	\$ -	\$ 13 795 242

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 22 200
Public safety	134 893
Community services	328 721
Sanitation	1 622
Street and drainage	<u>271 132</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 758 568</u>
Business-Type Activities:	
Water	\$ 455 951
Sewer	<u>228 779</u>
TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	<u>\$ 684 730</u>

D. Changes In Long-Term Debt

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

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 4 600 000	\$ -	\$ 260 000	\$ 4 340 000	\$ 275 000
Note payable	-	409 427	-	409 427	39 254
Compensated absences	<u>82 259</u>	<u>1 189</u>	<u>-</u>	<u>83 448</u>	<u>-</u>
GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	<u>\$ 4 682 259</u>	<u>\$ 410 616</u>	<u>\$ 260 000</u>	<u>\$ 4 832 875</u>	<u>\$ 314 254</u>
Business-Type Activities:					
General obligation bonds	\$ 1 980 000	\$ -	\$ 370 000	\$ 1 610 000	\$ 385 000
Notes payable	308 807	-	46 211	262 596	48 059
Compensated absences	<u>27 466</u>	<u>4 789</u>	<u>-</u>	<u>32 255</u>	<u>-</u>
BUSINESS-TYPE ACTIVITY LONG-TERM LIABILITIES	<u>\$ 2 316 273</u>	<u>\$ 4 789</u>	<u>\$ 416 211</u>	<u>\$ 1 904 851</u>	<u>\$ 433 059</u>

Bonds payable at September 30, 2011 are comprised of the following individual issues:

General Obligation Debt:

\$3,775,000 1998 Tax and Water and Sewer System Surplus Revenue Certificates of Obligation due in annual installments of \$35,000 to \$420,000 through August 15, 2015; interest at 4.40 to 6.50 percent (Liability recorded in the Water and Sewer Enterprise Fund)	\$ 1 610 000
\$2,000,000 2003 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation due in annual installments of \$25,000 to \$225,000 through August 15, 2023; interest at 4.40 to 5.50 percent (Liability recorded in governmental activities)	1 765 000
\$2,455,000 2005 General Obligation Refunding Bonds due in annual installments of \$130,000 to \$265,000 through February 2019; interest at 3.00 to 4.2 percent (Liability recorded in governmental activities)	1 380 000
\$1,500,000 2007 Combination Tax and Waterworks and Sewer System Revenue Certificate of Obligation Bonds due in annual installments of \$80,000 to \$140,000 through February 2022; interest at 4.0 to 5.5 percent (Liability recorded in governmental activities)	<u>1 195 000</u>
	<u>\$ 5 950 000</u>

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

The annual debt service requirements to maturity for all bonds and certificates of obligation are as follows:

YEAR ENDING SEPTEMBER	GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2012	\$ 275 000	\$ 189 215	\$ 385 000	\$ 75 282
2013	285 000	176 673	405 000	57 573
2014	300 000	163 520	420 000	38 740
2015	350 000	149 606	400 000	19 000
2016	440 000	132 903	-	-
2017-2021	2 110 000	363 379	-	-
2022-2023	580 000	34 055	-	-
TOTAL	\$ 4 340 000	\$ 1 209 351	\$ 1 610 000	\$ 190 595

Notes payable at September 30, 2011 are comprised of the following:

Notes Payable:

\$475,000 loan from the Texas Department of Transportation State Infrastructure Bank (SIB) for the Highway 7 water main reconstruction project to be paid in 10 annual payments of \$58,563 with an interest rate of 4.0%	\$ 262 596
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YEAR ENDING SEPTEMBER	BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST
2012	\$ 48 059	\$ 10 504
2013	49 982	8 582
2014	51 981	6 582
2015	54 060	4 503
2016	56 223	2 341
2017	2 291	92
TOTAL	\$ 262 596	\$ 32 604

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Bonds payable at September 30, 2011 by City of Center Street Improvements for Economic Development Corporation:

\$1,230,000 Sales Tax Revenue Refunding Bonds, Series 2004 due in annual installments of \$130,000 to \$270,000 through August 15, 2012; interest at 2.0 to 3.55 percent	\$ 270 000
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Changes in long-term debt is as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds Payable:					
Sales tax revenue refunding bonds	\$ 420 000	\$ -	\$ 150 000	\$ 270 000	\$ 270 000

The annual requirements to maturity for the bonds are as follows:

YEAR ENDING SEPTEMBER 30,	PRINCIPAL	INTEREST
2012	\$ 270 000	\$ 9 585
TOTAL	\$ 270 000	\$ 9 585

CITY OF CENTER, TEXAS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
September 30, 2011

NOTE 4 - OTHER INFORMATION

A. Component Units Condensed Statements

Condensed Statement of Net Assets

	CITY OF CENTER ECONOMIC DEVELOPMENT CORPORATION	CITY OF CENTER STREET IMPROVEMENTS FOR ECONOMIC DEVELOPMENT CORPORATION	TOTAL COMPONENT UNITS
<b>Assets:</b>			
Cash, investments and other assets	\$ 1 686 986	\$ 664 607	\$ 2 351 593
TOTAL ASSETS	1 686 986	664 607	2 351 593
<b>Liabilities:</b>			
Accounts payable and other current liabilities	1 459	2 198	3 657
Long-term liabilities	-	270 000	270 000
TOTAL LIABILITIES	1 459	272 198	273 657
<b>Net Assets:</b>			
Restricted for debt service	-	175 000	175 000
Unrestricted	1 685 527	217 409	1 902 936
TOTAL NET ASSETS	\$ 1 685 527	\$ 392 409	\$ 2 077 936

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 4 - OTHER INFORMATION - CONTINUED

Condensed Statement of Activities

	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ECONOMIC DEVELOPMENT	STREET IMPROVEMENT ECONOMIC DEVELOPMENT	TOTAL
Center Economic Development Corporation:							
Projects	\$ 714 273	\$ -	\$ -	\$ -	\$ (714 273)	\$ -	\$ (714 273)
Other operating expenses	60 449	-	-	-	(60 449)	-	(60 449)
TOTAL	<u>774 732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(774 732)</u>	<u>-</u>	<u>(774 732)</u>
Center Street Improvements for Economic Development Corporation:							
Projects	603 614	-	-	-	-	(603 614)	(603 614)
Other operating expenses	22 047	-	-	-	-	(22 047)	(22 047)
Interest and fees on long-term debt	14 436	-	-	-	-	(14 436)	(14 436)
TOTAL	<u>640 097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(640 097)</u>	<u>(640 097)</u>
TOTAL COMPONENT UNITS	<u>\$ 1 414 829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(774 732)</u>	<u>(640 097)</u>	<u>(1 414 829)</u>
General Revenues:							
Sales tax					477 075	954 151	1 431 226
Interest income					25 325	3 716	29 041
TOTAL GENERAL REVENUE					<u>502 400</u>	<u>957 867</u>	<u>1 460 267</u>
Change in net assets					(272 332)	317 770	45 438
Net assets - Beginning					1 957 859	74 639	2 032 498
NET ASSETS - ENDING					<u>\$ 1 685 527</u>	<u>\$ 392 409</u>	<u>\$ 2 077 936</u>

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 4 - OTHER INFORMATION - CONTINUED

B. Pension Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, 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 statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800.924.8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	Plan Year 2011
Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Contributions

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

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

**NOTE 4 - OTHER INFORMATION - CONTINUED**

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

**Actuarial Valuation Information:**

Valuation Date	12/31/2008	12/31/2009	12/31/2010 - Prior to restructuring	12/31/2010 - Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29.0 years; closed period	28.0 years; closed period	27.2 years; closed period	27.1 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
<b>Actuarial Assumptions:</b>				
Investment Rate of Return *	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00% 2.1%	3.00% 2.1%	3.00% 2.1%	3.00% 2.1%

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

FISCAL YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
09/30/2009	\$ 267 602	100%	\$ -
09/30/2010	\$ 284 432	100%	\$ -
09/30/2011	\$ 467 253	100%	\$ -

**Schedule of Actuarial Liabilities and Funding Progress:**

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARILY ACCRUED LIABILITY	(3) PERCENTAGE FUNDED (1) / (2)	(4) UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (UAAL)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL (4) / (5)
12/31/2008	\$ 3 044 172	\$ 5 727 438	53.2%	\$ 2 683 266	\$ 2 311 349	116.1%
12/31/2009	\$ 3 404 371	\$ 6 198 435	54.9%	\$ 2 794 064	\$ 2 448 820	114.9%
12/31/2010 <sup>1</sup>	\$ 4 051 211	\$ 6 962 151	58.2%	\$ 2 910 940	\$ 2 665 178	109.6%
12/31/2010 <sup>2</sup>	\$ 5 960 618	\$ 8 789 747	67.8%	\$ 2 829 129	\$ 2 665 178	106.2%

<sup>1</sup> Original fund structure

<sup>2</sup> New fund structure

CITY OF CENTER, TEXAS  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 September 30, 2011

NOTE 4 - OTHER INFORMATION - CONTINUED

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 earning, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

	PLAN YEAR 2010	PLAN YEAR 2011
Your City Offers Supplemental Death to:		
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

SCHEDULE OF CONTRIBUTION RATES			
PLAN/ CALENDAR YEAR	ANNUAL REQUIRED CONTRIBUTION	ACTUAL CONTRIBUTION MADE	PERCENTAGE OF ARC CONTRIBUTED
2008	0.07%	0.07%	100.0%
2009	0.05%	0.05%	100.0%
2010	0.05%	0.05%	100.0%
2011	0.06%	0.06%	100.0%

C. 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. These risks are covered by commercial insurance purchased from independent third parties. The City provides employee health and accident insurance coverage with commercial insurance purchased from independent third parties. Coverages have not significantly decreased and settlements have not exceeded insurance coverage for each of the past three years.

D. Prior Period Adjustment

The Industrial Development Fund was added as a special revenue fund of the City, and prior year accounts payable were corrected and capitalized relating to the civic center construction.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended September 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Revenues:				
General Property Taxes:				
Current taxes	\$ 708 750	\$ 708 750	\$ 711 408	\$ 2 658
Delinquent taxes	27 500	40 000	40 132	132
Penalties, interest and cost	17 500	17 500	26 634	9 134
<b>TOTAL GENERAL PROPERTY TAXES</b>	<u>753 750</u>	<u>766 250</u>	<u>778 174</u>	<u>11 924</u>
Other Local Taxes and Permits:				
City sales taxes	1 875 300	2 337 800	2 385 002	47 202
Franchise taxes	502 000	502 000	446 199	(55 801)
Mixed drink taxes	4 000	4 000	3 784	(216)
License and permit fees	42 250	72 250	68 544	(3 706)
<b>TOTAL OTHER LOCAL TAXES AND PERMITS</b>	<u>2 423 550</u>	<u>2 916 050</u>	<u>2 903 529</u>	<u>(12 521)</u>
Fines and Fees:				
Municipal court fines	190 000	190 000	172 501	(17 499)
Court cost fees	36 150	36 150	38 033	1 883
Miscellaneous	300	300	15 943	15 643
<b>TOTAL FINES AND FEES</b>	<u>226 450</u>	<u>226 450</u>	<u>226 477</u>	<u>27</u>
Charges For Service:				
Solid waste	1 226 000	1 226 000	1 295 888	69 888
Administration	22 500	22 500	49 083	26 583
Airport fuel	140 000	175 000	181 241	6 241
Airport hangar lease	22 000	22 000	24 408	2 408
Recreation fees	1 000	1 000	-	(1 000)
Building rental	67 750	67 750	72 362	4 612
<b>TOTAL CHARGES FOR SERVICES</b>	<u>1 479 250</u>	<u>1 514 250</u>	<u>1 622 982</u>	<u>108 732</u>
Contributions and Grants:				
Grant proceeds	3 700	76 203	78 540	2 337
Donations	8 500	52 500	56 950	4 450
<b>TOTAL CONTRIBUTIONS AND GRANTS</b>	<u>12 200</u>	<u>128 703</u>	<u>135 490</u>	<u>6 787</u>
Miscellaneous Revenue:				
Interest income	25 500	13 000	12 654	(346)
Miscellaneous receipts	26 800	44 215	19 542	(24 673)
<b>TOTAL MISCELLANEOUS REVENUE</b>	<u>52 300</u>	<u>57 215</u>	<u>32 196</u>	<u>(25 019)</u>
<b>TOTAL REVENUES</b>	<u>4 947 500</u>	<u>5 608 918</u>	<u>5 698 848</u>	<u>89 930</u>

CITY OF CENTER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND - CONTINUED  
Year Ended September 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Expenditures:				
General Government:				
City Hall:				
Payroll	592 375	592 375	619 146	(26 771)
Supplies	14 150	14 150	11 144	3 006
Contractual services	22 050	22 050	20 166	1 884
Utilities	15 150	15 150	15 703	(553)
Sundry charges	15 100	15 100	14 895	205
Maintenance	10 800	10 800	1 664	9 136
Capital outlay	15 000	26 300	18 409	7 891
TOTAL CITY HALL	<u>684 625</u>	<u>695 925</u>	<u>701 127</u>	<u>(5 202)</u>
Nondepartmental:				
Payroll	8 400	8 400	17 200	(8 800)
Supplies	5 750	5 750	7 483	(1 733)
Contractual services	146 200	146 200	154 014	(7 814)
Sundry charges	72 500	72 500	69 795	2 705
Capital outlay	15 000	15 000	12 321	2 679
TOTAL NONDEPARTMENTAL	<u>247 850</u>	<u>247 850</u>	<u>260 813</u>	<u>(12 963)</u>
TOTAL GENERAL GOVERNMENT	<u>932 475</u>	<u>943 775</u>	<u>961 940</u>	<u>(18 165)</u>
Public Safety:				
Police Department:				
Payroll	1 451 000	1 451 000	1 501 343	(50 343)
Supplies	40 550	40 550	41 148	(598)
Contractual services	17 900	17 900	16 090	1 810
Utilities	26 300	26 300	30 054	(3 754)
Sundry charges	16 400	16 400	18 021	(1 621)
Maintenance	64 600	64 600	84 998	(20 398)
Capital outlay	71 000	71 000	76 361	(5 361)
TOTAL POLICE DEPARTMENT	<u>1 687 750</u>	<u>1 687 750</u>	<u>1 768 015</u>	<u>(80 265)</u>
Fire Department:				
Payroll	342 850	342 850	359 795	(16 945)
Supplies	7 800	7 800	10 950	(3 150)
Contractual services	11 500	11 500	9 923	1 577
Utilities	10 350	10 350	9 892	458
Sundry charges	13 200	13 200	4 429	8 771
Maintenance	24 750	24 750	25 956	(1 206)
Capital outlay	23 500	263 005	247 570	15 435
TOTAL FIRE DEPARTMENT	<u>433 950</u>	<u>673 455</u>	<u>668 515</u>	<u>4 940</u>
Animal Control Department:				
Supplies	1 200	1 200	889	311
Contractual services	10 000	10 000	11 337	(1 337)
Utilities	100	100	146	(46)
Sundry charges	2 000	2 000	1 796	204
Maintenance	1 800	1 800	16	1 784
Capital outlay	1 000	1 000	1 292	(292)
TOTAL ANIMAL CONTROL DEPARTMENT	<u>16 100</u>	<u>16 100</u>	<u>15 476</u>	<u>624</u>

CITY OF CENTER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND - CONTINUED  
Year Ended September 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Emergency Management Department:				
Sundry charges	1 000	1 000	-	1 000
TOTAL EMERGENCY MANAGEMENT DEPARTMENT	1 000	1 000	-	1 000
TOTAL PUBLIC SAFETY	2 138 800	2 378 305	2 452 006	(73 701)
Community Services:				
Airport Department:				
Payroll	44 425	44 425	44 354	71
Supplies	1 650	1 650	845	805
Contractual services	1 225	10 225	12 915	(2 690)
Utilities	6 300	6 300	2 198	4 102
Sundry charges	94 600	136 600	151 622	(15 022)
Maintenance	9 600	9 600	7 765	1 835
Capital outlay	1 000	1 000	612	388
TOTAL AIRPORT DEPARTMENT	158 800	209 800	220 311	(10 511)
Cemetery Department:				
Supplies	500	500	-	500
Contractual services	29 500	29 500	29 800	(300)
Sundry charges	-	-	1 275	(1 275)
TOTAL CEMETERY DEPARTMENT	30 000	30 000	31 075	(1 075)
Parks Department:				
Payroll	38 050	38 050	37 623	427
Supplies	2 450	2 450	1 619	831
Contractual services	38 000	70 000	58 003	11 997
Utilities	8 500	8 500	4 147	4 353
Sundry	-	-	400	(400)
Maintenance	16 100	16 100	11 530	4 570
Capital outlay	18 500	18 500	4 673	13 827
TOTAL PARKS DEPARTMENT	121 600	153 600	117 995	35 605
Recreation Program:				
Sundry	10 000	10 000	-	10 000
TOTAL RECREATION PROGRAM	10 000	10 000	-	10 000
Civic Center Department:				
Payroll	98 300	108 250	111 110	(2 860)
Supplies	6 000	6 950	7 886	(936)
Contractual services	9 950	23 950	20 723	3 227
Utilities	21 550	24 150	21 443	2 707
Sundry	5 000	5 000	4 134	866
Maintenance	2 200	2 200	8 669	(6 469)
Capital outlay	5 000	5 000	5 667	(667)
TOTAL CIVIC CENTER DEPARTMENT	148 000	175 500	179 632	(4 132)
Community Facilities Department:				
Supplies	-	-	120	(120)
Contractual services	54 800	54 800	58 079	(3 279)
Utilities	9 100	9 100	11 224	(2 124)
Sundry	200	200	-	200
Maintenance	4 500	4 500	7 369	(2 869)
Capital outlay	-	31 803	37 358	(5 555)
TOTAL COMMUNITY FACILITIES DEPARTMENT	68 600	100 403	114 150	(13 747)
TOTAL COMMUNITY SERVICES	537 000	679 303	663 163	16 140

CITY OF CENTER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND - CONTINUED  
Year Ended September 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Streets and Drainage:				
Streets Department:				
Payroll	211 575	211 575	179 770	31 805
Supplies	14 200	14 200	3 659	10 541
Contractual services	67 700	67 700	56 629	11 071
Utilities	70 000	70 000	74 248	(4 248)
Sundry charges	2 300	2 300	677	1 623
Maintenance	102 050	102 050	93 012	9 038
Capital outlay	58 000	58 000	62 025	(4 025)
TOTAL STREETS DEPARTMENT	<u>525 825</u>	<u>525 825</u>	<u>470 020</u>	<u>55 805</u>
TOTAL STREETS AND DRAINAGE	<u>525 825</u>	<u>525 825</u>	<u>470 020</u>	<u>55 805</u>
Sanitation:				
Sanitation Department:				
Contractual services	975 000	975 000	990 592	(15 592)
Sundry charges	10 000	10 000	5 058	4 942
Maintenance	2 750	2 750	4 644	(1 894)
TOTAL SANITATION DEPARTMENT	<u>987 750</u>	<u>987 750</u>	<u>1 000 294</u>	<u>(12 544)</u>
TOTAL SANITATION	<u>987 750</u>	<u>987 750</u>	<u>1 000 294</u>	<u>(12 544)</u>
Inspection Services:				
Inspection Department:				
Payroll	162 150	162 150	148 981	13 169
Supplies	5 000	5 000	3 242	1 758
Contractual services	500	500	348	152
Utilities	5 200	5 200	4 634	566
Sundry	6 300	6 300	3 262	3 038
Maintenance	8 500	8 500	5 695	2 805
Capital outlay	3 000	3 000	1 723	1 277
TOTAL INSPECTION DEPARTMENT	<u>190 650</u>	<u>190 650</u>	<u>167 885</u>	<u>22 765</u>
TOTAL INSPECTION SERVICES	<u>190 650</u>	<u>190 650</u>	<u>167 885</u>	<u>22 765</u>
TOTAL EXPENDITURES	<u>5 312 500</u>	<u>5 705 608</u>	<u>5 715 308</u>	<u>(9 700)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(365 000)</u>	<u>(96 690)</u>	<u>(16 460)</u>	<u>80 230</u>
Other Financing Sources (Uses):				
Operating transfers in	365 000	365 000	373 357	8 357
Operating transfers (out)	-	(110 000)	(104 003)	5 997
TOTAL OTHER FINANCING SOURCES (USES)	<u>365 000</u>	<u>255 000</u>	<u>269 354</u>	<u>14 354</u>
CHANGE IN FUND BALANCE	-	158 310	252 894	94 584
Fund balance at beginning of year	1 197 532	1 197 532	1 197 532	-
FUND BALANCE AT END OF YEAR	<u>\$ 1 197 532</u>	<u>\$ 1 355 842</u>	<u>\$ 1 450 426</u>	<u>\$ 94 584</u>

See independent auditors' report.

SUPPLEMENTARY INFORMATION

## NONMAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Texas Capital Grant Repayment Funds - To account revenues and expenditures related to Texas Department of Economic Development loans.

Court Technology and Security Fund - To account for certain fees assessed on fines.

Hotel - Motel Facilities Fund - To account for hotel-motel taxes and related expenditures.

Civic Center Fund - To account for the activity of the civic center.

Tax Increment Financing Fund - To account for activities related to the tax incremental financing.

Other Grants - To account for revenues and expenditures applicable to Grant Programs.

Industrial Development Fund - To account for activity related to industrial development initiatives.

Police Department Forfeiture Fund - To account for forfeited funds collected by the police department.

### Debt Service Fund

Debt Service Fund - To account for the accumulation of monies for the payment of general obligation debt.

### Permanent Fund

Fairview Cemetery Fund - This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the cemetery.

CITY OF CENTER, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 September 30, 2011

	DEBT SERVICE FUND	NONMAJOR SPECIAL REVENUE FUNDS	PERMANENT FUND CEMETERY ENDOWMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 139 849	\$ 329 523	\$ 134 708	\$ 604 080
Receivables	-	2 000	-	2 000
Due from other funds	-	150 000	-	150 000
<b>TOTAL ASSETS</b>	<u>\$ 139 849</u>	<u>\$ 481 523</u>	<u>\$ 134 708</u>	<u>\$ 756 080</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ 63 042	\$ -	\$ 63 042
Deferred revenue	-	152 000	-	152 000
Due to other funds	-	338 039	-	338 039
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>553 081</u>	<u>-</u>	<u>553 081</u>
 Fund Balances:				
Restricted for grants	-	(71 558)	-	(71 558)
Restricted for debt service	139 849	-	-	139 849
Other restrictions	-	-	134 708	134 708
<b>TOTAL FUND BALANCES</b>	<u>139 849</u>	<u>(71 558)</u>	<u>134 708</u>	<u>202 999</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 139 849</u>	<u>\$ 481 523</u>	<u>\$ 134 708</u>	<u>\$ 756 080</u>

See independent auditors' report.



CITY OF CENTER, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended September 30, 2011

	DEBT SERVICE FUND	NONMAJOR SPECIAL REVENUE FUNDS	PERMANENT FUND CEMETERY ENDOWMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:				
Taxes	\$ 340 814	\$ 445 509	\$ -	\$ 786 323
Grants and contributions	-	440 206	12	440 218
Fines and fees	-	15 395	-	15 395
Other	1 779	303 676	1 513	303 968
<b>TOTAL REVENUES</b>	<u>342 593</u>	<u>1 204 786</u>	<u>1 525</u>	<u>1 548 904</u>
Expenditures:				
Public safety	-	10 796	-	10 796
Community services	-	840 306	-	840 306
Streets and drainage	-	607 476	-	607 476
Debt Service:				
Principal	260 000	-	-	260 000
Interest and fiscal charges	203 131	-	-	203 131
<b>TOTAL EXPENDITURES</b>	<u>463 131</u>	<u>1 458 578</u>	<u>-</u>	<u>1 921 709</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(120 538)</u>	<u>(253 792)</u>	<u>1 525</u>	<u>(372 805)</u>
Other Financing Sources (Uses):				
Note proceeds	-	409 426	-	409 426
Operating transfers in	140 000	132 517	-	272 517
Operating transfers (out)	(17 118)	(243 357)	-	(260 475)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>122 882</u>	<u>298 586</u>	<u>-</u>	<u>421 468</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>2 344</u>	<u>44 794</u>	<u>1 525</u>	<u>48 663</u>
Prior period adjustment to fund balance	-	514 297	-	514 297
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>137 505</u>	<u>(630 649)</u>	<u>133 183</u>	<u>(359 961)</u>
<b>FUND BALANCE, BEGINNING OF YEAR (RESTATED)</b>	<u>137 505</u>	<u>(116 352)</u>	<u>133 183</u>	<u>154 336</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 139 849</u>	<u>\$ (71 558)</u>	<u>\$ 134 708</u>	<u>\$ 202 999</u>

See independent auditors' report.

CITY OF CENTER, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 September 30, 2011

	TEXAS CAPITAL GRANT REPAYMENT FUND	CIVIC CENTER FUND	HOTEL/ MOTEL FACILITIES FUND	COURT TECH- NOLOGY FUND	COURT SECURITY FUND	POLICE DEPT. FORFEI- TURE FUND
<b>ASSETS</b>						
Cash and cash equivalents	\$ 22	\$ 20	\$ 283 475	\$ 10 559	\$ 22 813	\$ 5 088
Receivables	-	-	2 000	-	-	-
Due from other funds	-	150 000	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 22</b>	<b>\$ 150 020</b>	<b>\$ 285 475</b>	<b>\$ 10 559</b>	<b>\$ 22 813</b>	<b>\$ 5 088</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 1 490	\$ -	\$ 59 192	\$ 2 360	\$ -	\$ -
Deferred revenue	-	150 000	2 000	-	-	-
Due to other funds	-	191 944	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1 490</b>	<b>341 944</b>	<b>61 192</b>	<b>2 360</b>	<b>-</b>	<b>-</b>
<b>Fund Balance:</b>						
Restricted	(1 468)	(191 924)	224 283	8 199	22 813	5 088
<b>TOTAL FUND BALANCE</b>	<b>(1 468)</b>	<b>(191 924)</b>	<b>224 283</b>	<b>8 199</b>	<b>22 813</b>	<b>5 088</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 22</b>	<b>\$ 150 020</b>	<b>\$ 285 475</b>	<b>\$ 10 559</b>	<b>\$ 22 813</b>	<b>\$ 5 088</b>

See independent auditors' report.

AIRPORT CONSTRUCTION FUND	HOME GRANT	2008 TEXAS CDBG GRANT	TAX INCREMENT FINANCING FUND	TXDOT STEP GRANT	INDUSTRIAL DEVELOP- MENT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
\$ 30	\$ 10	\$ 10	\$ 10	\$ 10	\$ 7 476	\$ 329 523
-	-	-	-	-	-	2 000
-	-	-	-	-	-	150 000
<u>\$ 30</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 7 476</u>	<u>\$ 481 523</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63 042
-	-	-	-	-	-	152 000
-	73 770	72 325	-	-	-	338 039
<u>-</u>	<u>73 770</u>	<u>72 325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>553 081</u>
30	(73 760)	(72 315)	10	10	7 476	(71 558)
<u>30</u>	<u>(73 760)</u>	<u>(72 315)</u>	<u>10</u>	<u>10</u>	<u>7 476</u>	<u>(71 558)</u>
<u>\$ 30</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 7 476</u>	<u>\$ 481 523</u>

CITY OF CENTER, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended September 30, 2011

	TEXAS CAPITAL GRANT REPAYMENT FUND	CIVIC CENTER FUND	HOTEL/ MOTEL FACILITIES FUND	COURT TECH- NOLOGY FUND	COURT SECURITY FUND	POLICE DEPT. FORFEI- TURE FUND
Revenues:						
Taxes	\$ -	\$ -	\$ 445 509	\$ -	\$ -	\$ -
Grants and contributions	-	79 688	23 000	-	-	-
Fines and fees	-	-	-	5 912	4 423	5 060
Other	299 510	-	260	17	3 847	28
TOTAL REVENUES	<u>299 510</u>	<u>79 688</u>	<u>468 769</u>	<u>5 929</u>	<u>8 270</u>	<u>5 088</u>
Expenditures:						
Public safety	-	-	-	5 556	5 240	-
Community services	301 000	47 314	111 362	-	-	-
Streets and drainage	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>301 000</u>	<u>47 314</u>	<u>111 362</u>	<u>5 556</u>	<u>5 240</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1 490)</u>	<u>32 373</u>	<u>357 407</u>	<u>373</u>	<u>3 030</u>	<u>5 088</u>
Other Financing Sources (Uses):						
Note proceeds	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	(235 000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(235 000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(1 490)</u>	<u>32 373</u>	<u>122 407</u>	<u>373</u>	<u>3 030</u>	<u>5 088</u>
Prior period adjustment to fund balance	-	506 835	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	<u>22</u>	<u>(731 131)</u>	<u>101 876</u>	<u>7 826</u>	<u>19 783</u>	<u>-</u>
FUND BALANCE, BEGINNING OF YEAR (RESTATED)	<u>22</u>	<u>(224 296)</u>	<u>101 876</u>	<u>7 826</u>	<u>19 783</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ (1 468)</u>	<u>\$ (191 924)</u>	<u>\$ 224 283</u>	<u>\$ 8 199</u>	<u>\$ 22 813</u>	<u>\$ 5 088</u>

See independent auditors' report.

AIRPORT CONSTRUCTION FUND	HOME GRANT	2008 TEXAS CDBG GRANT	TAX INCREMENT FINANCING FUND	TXDOT STEP GRANT	INDUSTRIAL DEVELOP- MENT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 445 509
8 357	303 661	25 500	-	-	-	440 206
-	-	-	-	-	-	15 395
-	-	-	-	-	14	303 676
<u>8 357</u>	<u>303 661</u>	<u>25 500</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>1 204 786</u>
-	-	-	-	-	-	10 796
-	380 630	-	-	-	-	840 306
-	-	151 339	380 333	75 804	-	607 476
<u>-</u>	<u>380 630</u>	<u>151 339</u>	<u>380 333</u>	<u>75 804</u>	<u>-</u>	<u>1 458 578</u>
<u>8 357</u>	<u>(76 969)</u>	<u>(125 839)</u>	<u>(380 333)</u>	<u>(75 804)</u>	<u>14</u>	<u>(253 792)</u>
-	-	-	409 426	-	-	409 426
-	3 189	53 514	-	75 814	-	132 517
<u>(8 357)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(243 357)</u>
<u>(8 357)</u>	<u>3 189</u>	<u>53 514</u>	<u>409 426</u>	<u>75 814</u>	<u>-</u>	<u>298 586</u>
-	(73 780)	(72 325)	29 094	10	14	44 794
-	-	-	-	-	7 462	514 297
<u>30</u>	<u>20</u>	<u>10</u>	<u>(29 084)</u>	<u>-</u>	<u>-</u>	<u>(630 649)</u>
<u>30</u>	<u>20</u>	<u>10</u>	<u>(29 084)</u>	<u>-</u>	<u>7 462</u>	<u>(116 352)</u>
<u>\$ 30</u>	<u>\$ (73 760)</u>	<u>\$ (72 315)</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 7 476</u>	<u>\$ (71 558)</u>

CITY OF CENTER, TEXAS  
 SCHEDULE OF REVENUES  
 PROPRIETARY FUNDS  
 Year Ended September 30, 2011

	<u>WATER AND SEWER ENTERPRISE FUND</u>
Operating Revenues:	
Charges for Service:	
Water charges	\$ 2 419 177
Sewer charges	<u>815 248</u>
TOTAL	<u>3 234 425</u>
Taps and Connections:	
Water taps and connections	42 120
Sewer taps and connections	<u>7 275</u>
TOTAL	<u>49 395</u>
Miscellaneous Revenue:	
Administrative fees	6 735
Penalties	48 005
Reconnection fees	18 453
Miscellaneous receipts	<u>14 734</u>
TOTAL	<u>87 927</u>
TOTAL OPERATING REVENUES	<u>\$ 3 371 747</u>
Nonoperating Revenues:	
Income from investments	\$ 6 599
Capital grants and contributions	<u>6 700</u>
TOTAL NONOPERATING REVENUES	<u>\$ 13 299</u>

See independent auditors' report.

CITY OF CENTER, TEXAS  
SCHEDULE OF EXPENSES AND OPERATING TRANSFERS  
PROPRIETARY FUNDS  
Year Ended September 30, 2011

	<u>WATER AND SEWER ENTERPRISE FUND</u>
Operating Expenses:	
Nondepartmental:	
Payroll	\$ 5 050
Supplies	12 565
Contractual services	4 282
Sundry charges	16 005
TOTAL	<u>37 902</u>
Public Works:	
Payroll	135 503
Supplies	3 465
Contractual services	6 221
Utilities	10 167
Sundry charges	3 112
Maintenance	1 804
Capital outlay	305
TOTAL	<u>160 577</u>
Water Production:	
Payroll	378 524
Supplies	241 747
Contractual services	197 990
Utilities	229 770
Sundry charges	11 749
Maintenance	115 431
Capital outlay	36 949
TOTAL	<u>1 212 160</u>
Water Distribution:	
Payroll	148 573
Supplies	3 443
Contractual services	2 140
Utilities	2 947
Sundry charges	3 336
Maintenance	84 743
Capital outlay	18 625
TOTAL	<u>263 807</u>
Sewer Collection:	
Payroll	123 659
Supplies	2 280
Contractual services	4 952
Utilities	14 969
Sundry charges	553
Maintenance	25 898
Capital outlay	19 071
TOTAL	<u>191 382</u>

CITY OF CENTER, TEXAS  
 SCHEDULE OF EXPENSES AND OPERATING TRANSFERS  
 ENTERPRISE FUNDS - CONTINUED  
 Year Ended September 30, 2011

	<u>WATER AND SEWER ENTERPRISE FUND</u>
Sewer Treatment:	
Payroll	179 246
Supplies	37 059
Contractual services	68 058
Utilities	59 291
Sundry charges	23 341
Maintenance	68 907
Capital outlay	7 669
TOTAL	<u>443 571</u>
Depreciation:	
Depreciation	<u>684 730</u>
TOTAL OPERATING EXPENSES	\$ <u><u>2 994 129</u></u>
Nonoperating Expenses:	
Interest and fiscal charges	\$ 180 729
Amortization	<u>2 700</u>
TOTAL NONOPERATING EXPENSES	\$ <u><u>183 429</u></u>

See independent auditors' report.



STATISTICAL SECTION

CITY OF CENTER, TEXAS  
INSURANCE COVERAGE  
September 30, 2011  
"UNAUDITED"

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
Texas Municipal League	Law Enforcement Liability	* 10/01/10 to 10/01/11	\$ 1 000 000
Texas Municipal League	Public Officials (Excess Coverage)	* 10/01/10 to 10/01/11	\$ 100 000
Deep East Texas Self Insurance Fund	Worker's Compensation	* 10/01/10 to 10/01/11	Statutory
Texas Municipal League	Real and Personal Property	* 10/01/10 to 10/01/11	\$ 14 708 372
Texas Municipal League	General Liability	* 10/01/10 to 10/01/11	\$ 1 000 000
Texas Municipal League	Airport Liability	* 10/01/10 to 10/01/11	\$ 1 000 000
Texas Municipal League	Mobile Equipment	* 10/01/10 to 10/01/11	\$ 259 482
Texas Municipal League	Automobile Liability	* 10/01/10 to 10/01/11	\$ 1 000 000
Texas Municipal League	Auto Physical Damage	* 10/01/10 to 10/01/11	\$ Actual Cash Value
Texas Municipal League	Public Employee Dishonesty	* 10/01/10 to 10/01/11	\$ 25 000
Texas Municipal League	Errors and Omissions Liability	* 10/01/10 to 10/01/11	\$ 1 000 000
Texas Municipal League	Sudden Events Involving Pollution	* 10/01/10 to 10/01/11	\$ 1 000 000

\* Renewed at 10/01/2011

See independent auditors' report.

CITY OF CENTER, TEXAS  
 WATER AND SEWER RATES AND SYSTEM CONNECTIONS  
 September 30, 2011  
 "UNAUDITED"

The following schedule of rates was in effect for year ended September 30, 2011:

Water Rates:

A. Monthly Minimum Charge:

Meter Size	Residential/ Commercial	Small Industrial/ Manufacturer 1 <sup>st</sup> 200,000 Gallons Incl.	Wholesale 1 <sup>st</sup> 50,000 Gallons Incl.	Large Industrial Manufacturer 1 <sup>st</sup> 5,000,000 Gallons Incl.	Industrial/Manufacturer Supplemental Meter Charges Same Facility
5/8	\$ 9.15				
3/4	\$ 9.15				
1	\$12.95				
1.5	\$19.40				
2	\$25.85	\$ 622	\$ 183	\$ 9 600	\$ 37
3	\$38.75	\$ 689	\$ 250	\$ 9 720	\$ 102
4	\$51.70	\$ 817	\$ 378	\$ 9 960	\$ 229
6	\$77.50	\$1 043	\$ 604	\$10 400	\$ 459
8		\$1 389	\$ 950	\$11 060	\$ 802
10		\$1 847	\$1 408	\$11 930	\$1 260
Sprinklers	\$12.95				

B. Unit Cost Per 1,000 Gallons:

Residential, commercial and sprinklers	\$ 3.00
Small industrial/manufacturer	\$ 2.50
Wholesale	\$ 2.64
Large industrial/manufacturer	\$ 1.51

C. Outside City Limits:

Rates are double the rates expressed in A and B above.

D. Bulk Water Sales:

Water purchased in bulk quantities shall be billed at a charge based on \$7.50 per thousand gallons metered.

Sewer Rates:

Residential:

Inside City Limits:

Minimum	\$8.40 plus ½ of Water
Maximum	\$24.00

Commercial:

Minimum	\$8.40 plus ½ of Water
Maximum	None

Outside City Limits:

The rate for services furnished outside the City limits shall be double the rate for the same service supplied inside the City limits.

At September 30, 2011, the records of the City indicated the following system connections:

Water System	2 504
Sewer System	2 081

See independent auditors' report.

COMPLIANCE SECTION

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

Honorable Mayor and City Council  
City of Center, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Center, Texas as of and for the year ended September 30, 2011, which collectively comprise the City of Center's basic financial statements, and have issued our report thereon dated May 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Center, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

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

*Axley & Rode LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
May 3, 2012