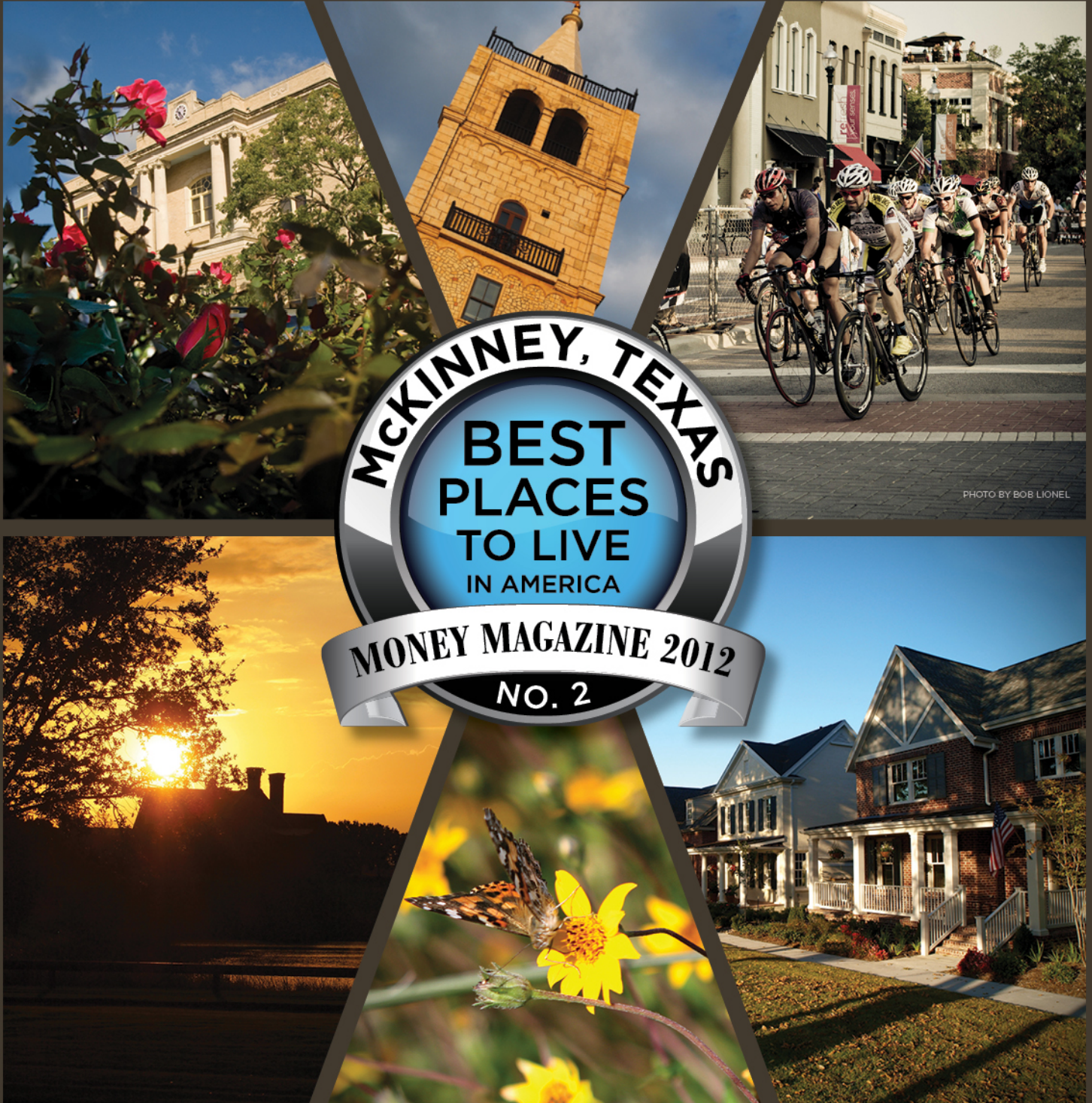


City of McKinney, Texas

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2012



Our Unique Nature makes us one of America's Best Places to Live

**CITY OF MCKINNEY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

**AS PREPARED BY THE
FINANCE DEPARTMENT**



**City of McKinney
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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INTRODUCTORY SECTION





**CITY OF MCKINNEY
Finance Department**

222 N. Tennessee Street
McKinney, Texas 75069
(972) 547-7530
(972) 547-2611 Fax
www.mckinneytexas.org

March 5, 2013

Honorable Mayor and City Council,
City Manager,
Citizens of McKinney:

The Comprehensive Annual Financial Report (CAFR) of the City of McKinney, Texas (the City), for the fiscal year ended September 30, 2012, is hereby submitted in accordance with Section 48 of the City Charter.

This report is published to provide the City council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

Weaver and Tidwell, LLP, Certified Public Accountants, has issued an unqualified ("clean") opinion on the City of McKinney financial statements for the year ended September 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

CITY OF MCKINNEY PROFILE

The City of McKinney, incorporated in 1848, is located in central Collin County, Texas, 30 miles north of downtown Dallas, on U.S. Highway 75. The City currently occupies a land area of 62.8 square miles and serves a population of over 136,666. The City is empowered to levy property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically, when deemed appropriate by the governing council.

The City Council is comprised of a mayor and six members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Attorney, and Municipal Judges. The mayor and the council members are elected on a non-partisan basis. Both the mayor and council members serve four-year terms. Four of the council members are elected by district. The mayor and the two remaining council members are elected at large. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the directors and heads of departments, and the performance of functions within the municipal organization.

The City of McKinney provides a full range of services including police, fire, emergency ambulance service, library, parks, recreation, water, sewer, refuse collection and disposal, golf, traffic engineering, streets and infrastructure, community development (planning and zoning), economic development, public improvements, and general administrative services.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of McKinney as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are legally separate entities and not part of the primary government's operations. The McKinney Economic Development Corporation (MEDC), McKinney Community Development Corporation (MCDC), Collin County Airport Development Corporation (CCADC), and McKinney Convention and Visitors Bureau (MCVB) are included in the financial statements as discretely presented component units.

LOCAL ECONOMY

McKinney has been one of the fastest growing cities in America since 2000. In the August 2012 issue of Money Magazine, McKinney ranked No. 2 on the annual "Best Places to Live in America" list. McKinney is the only Texas city in the top 10. McKinney was also named one of the 100 Best Communities for Young People in 2012, a distinction given annually by the America's Promise Alliance. In addition, McKinney, Texas, has made an appearance in many recent rankings, including safest cities in the state and country, fastest growing cities in the country, and best places to raise a family. In 2009, McKinney was named one of the 25 Best Places to Move in the country by Forbes.com. McKinney is rich with industry – medical technology, data management, manufacturing, aviation, defense, mixed-use, office and retail. Companies range from Fortune 500 corporations to home-grown businesses. The impressive list includes: Raytheon, Encore Wire, Emerson Process Management, Lattimore Materials, Baylor Medical Center at McKinney, Medical Center of McKinney, Torchmark/United American Ins., and Watson & Chalin.

McKinney's small business community is equally as important to the vitality of McKinney's economy. McKinney enjoys one of the oldest authentic historic downtowns in Texas. Our 165-year old city center continues to serve as a thriving retail, dining, entertainment and business destination. The town square offers over 120 unique businesses within the commercial historic district, including a charming hotel and quaint bed and breakfast destinations nestled between eateries, specialty shops, apparel boutiques, art galleries and entertainment options.

McKinney's growth and development over the past decade have been built on a strong foundation of overall planning, management, quality of life, and policy direction. All in all, the picture of McKinney is one of a vital community, facing the economic challenges and opportunities of the future with optimism and forethought.

LONG-TERM FINANCIAL PLANNING

The City of McKinney establishes a five-year financial plan and a five-year capital improvement plan during the annual budget process. The City of McKinney annually evaluates the need to issue debt using the five-year capital improvement plan, staying within the guidelines of the approved debt policy.

The five-year capital improvement plan outlines various facilities improvements including a Municipal Government Center, Public Safety Building Additions, and a Fire Station, various roadway improvements including Highway 5, and various Water/Sewer improvements including the Stacy Elevated Storage Tank.

RELEVANT FINANCIAL POLICIES

The City's financial policies set forth the basic framework for the fiscal management of the City. These include policies for accounting, budgeting, capital improvements, asset management, revenue management, and fund balance/reserve levels. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the City of McKinney City Charter. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

The City's accounting records for general governmental activities are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services of goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis.

A resolution amending the City's financial policies to update the Fund Balance Reserve Requirements from 60 days of operating revenues to 90 days of operating expenses was approved by Council in February 2012.

Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year end. Under the City's budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be re-appropriated and honored the subsequent fiscal year. The annual budget serves as the foundation for the City of McKinney's financial planning and control. All requests for appropriation by the departments, divisions, and component units of the City of McKinney shall be furnished to the City Manager on or before August 1st each year. A proposed budget is presented to the City Council for review on or before August 15th. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30th, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Transfer of appropriations within a department and within funds may be made with approval from the City Manager or his designee. Transfers between funds or additional appropriation require the approval of the City Council.

MAJOR INITIATIVES

For Fiscal Year 2011-12, major project initiatives for the City of McKinney included the Airport Replacement Runway, Alma Road, Bonnie Wenk Park, various Intersection Improvements, US 75 Water Main Relocation, and US 75 construction by TxDOT.

The major project initiatives planned for fiscal year 2012-13 are various roadway improvements including FM546, FM543, East Louisiana, Town Center Roads; various park improvements including Bonnie Wenk Park; and various Water/Sewer improvements including Bloomdale/Tucker Hill.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of McKinney for its CAFR for the fiscal year ended September 30, 2011. This was the twenty-eighth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The current CAFR will be submitted to the GFOA where we expect it to meet the Certificate of Achievement eligibility requirements.

The City also received the GFOA's Award for Distinguished Budget Presentation for its annual program of services dated October 1, 2011. This is the twenty-eighth consecutive year the City has received the award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy document, financial plan, operations guide, and communications device.

In addition, the City of McKinney was awarded the 2012 Texas Comptroller's Leadership Circle Gold Certificate for its high standard of online financial transparency. The City's perfect 20 of 20 score ranked it in the top 5% of Texas cities and counties. This was the second year the City has been recognized for this award.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Financial Services Department, our Audit Committee, and our independent auditors. We would like to express our sincere appreciation to those persons who have made possible the publication of this report. In addition, I would personally like to extend thanks to all of the Financial Services staff for their efforts over the last year. Credit also must be given to the Mayor, City Council and the City Manager's Office for their support for maintaining the highest standards of professionalism in the management of the City of McKinney's finances.

Respectfully Submitted,



Rodney D. Rhoades
Chief Financial Officer

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of McKinney
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morill

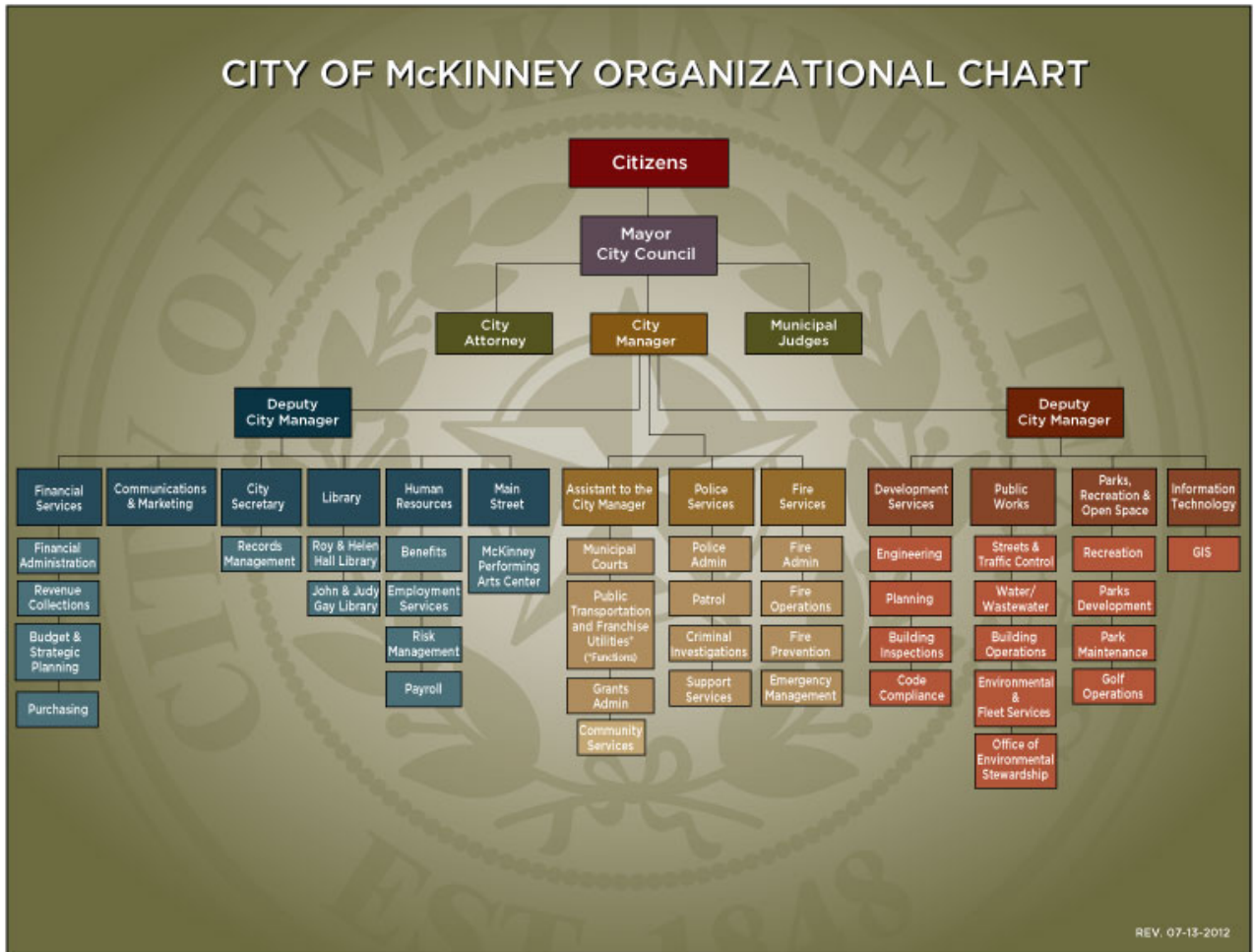
President

Jeffrey R. Egan

Executive Director



CITY OF MCKINNEY ORGANIZATION FY 2011-2012



CITY OF MCKINNEY, TEXAS CITY OFFICIALS

CITY COUNCIL

Brian Loughmiller, Mayor
Travis Ussery, Mayor Pro-Tem
David Brooks
Don Day
Roger Harris
Geraldyn Keever
Ray Ricchi

CITY MANAGER

Jason Gray

DEPUTY CITY MANAGERS

Rob Daake
Joe Williams

CHIEF FINANCIAL OFFICER

Rodney Rhoades

FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of McKinney, Texas

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


City of McKinney
March 1, 2013

Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (on pages 3 through 11) and the schedules of funding progress for the Texas Municipal Retirement System and Other Postemployment Benefits (on pages 71 and 72) be presented to supplement the basic financial statements. Such information although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with the management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We express no opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McKinney's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of McKinney, we offer readers of the City of McKinney financial statements this narrative overview and analysis of the financial activities of the City of McKinney for the fiscal year ended September 30, 2012. Please read this in conjunction with the transmittal letter at the beginning of the report and the City's financial statements following this section.

I. FINANCIAL HIGHLIGHTS

- The assets of the City of McKinney exceeded its liabilities at September 30, 2012 by \$694 million (Net Assets). Of this amount, \$493 million (71%) are invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for specific purposes total \$76 million (11%). The remaining \$125 million (18%) are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of McKinney's net assets increased by \$18.3 million. Unrestricted net assets, which may be used to meet the City's ongoing obligations to citizens and creditors, decreased by \$13.5 million.
- At the close of the current fiscal year, the City of McKinney's governmental funds reported combined ending fund balances of \$121 million, an increase of \$9 million in comparison to the prior year. Approximately \$46.2 million, or 38%, of the fund balance is available for spending at the government's discretion (unassigned fund balance).
- Within the combined fund balances, \$0.8 million is non-spendable for inventory, prepaid items, and land held for sale and \$1.6 million is for notes from component units. \$1.7 million is restricted for debt service, \$67.6 million is for street construction and other capital projects, and fund balance of \$1.5 million in the special revenue funds contains grant and other spending restrictions. \$1.7 million has been assigned for OPEB and the remaining \$46.2 million is unassigned fund balance in the general fund and can be used for any lawful purpose. The unassigned general fund balance is equal to 56% of total general fund expenditures. This represents 30% more than the fund balance policy requirement.
- On a government-wide basis, the City's total liabilities decreased by \$14 million (5%) during the current fiscal year. The key factor in this decrease was a reduction in bonds payable and accounts payable.

II OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all of the City of McKinney'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 of McKinney 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 these statements 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 the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including administrative, police, fire, development, public works, parks, and library. Property taxes, sales taxes, hotel occupancy taxes, franchise fees, licenses and permit fees finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water and wastewater system, solid waste system, airport, golf course and surface water drainage system are reported here.
- **Component Units** – The City includes four separate legal entities in its report – the McKinney Economic Development Corporation, McKinney Community Development Corporation, the McKinney Convention and Visitors Bureau, and Collin County Airport Development Corporation. Although legally separate, these component units are important because the City is financially accountable for them.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of McKinney, 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 McKinney can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 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 McKinney maintains fourteen 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, debt service fund, and street construction fund, all of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of McKinney adopts an annual appropriated budget for its general fund, debt service fund, and special revenue funds. Budgetary comparison statements have been provided for the general fund and the debt service fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 15-21.

- **Proprietary Funds.** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. There are two types of proprietary funds: enterprise funds and internal service funds. The City does not utilize any internal service funds. The City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

The City of McKinney maintains four individual enterprise funds to account for its water and wastewater, solid waste, golf course, and surface water drainage. The water and wastewater fund is considered a major fund, while the solid waste fund, golf course fund and surface water drainage fund are considered as non-major funds of the City. Individual fund data for each of these funds is provided in the form of combining statements in this report.

The basic proprietary fund financial statements can be found on pages 22-25.

- **Fiduciary Responsibilities.** The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. The activities of these funds are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The basic fiduciary fund financial statements can be found on page 26.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-70.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City of McKinney's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees, which can be found on pages 71-72.

The combining statements referred to earlier in connection with the non-major governmental funds, non-major enterprise funds and discretely presented component units are presented immediately following the required supplementary information on pensions. Combining statements and individual fund statements can be found on pages 73-104 of this report.

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of McKinney, assets exceeded liabilities by \$694 million as of .

By far the largest portion of the City's net assets, \$493 million (71%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City of McKinney's net assets (\$76 million, or 11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$125 million, or 18%) may be used to meet the government's ongoing obligations to citizens and

creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The net assets for governmental activities and business type activities are summarized as follows:

**Table 1
Net Assets
(in Millions)**

	Governmental Activities		Business Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Current and other assets	\$ 138	\$ 131	\$ 95	\$ 88	\$ 233	\$ 219
Capital assets	475	491	293	287	768	778
Total Assets	613	622	388	375	1,001	997
Long-term liabilities outstanding	203	211	70	74	273	285
Other liabilities	23	26	11	10	34	36
Total Liabilities	226	237	81	84	307	321
Net Assets						
Invested in capital assets (net of related debt)	275	285	218	209	493	494
Restricted	65	36	10	8	75	44
Unrestricted	47	64	79	74	126	138
Total Net Assets	\$ 387	\$ 385	\$ 307	\$ 291	\$ 694	\$ 676

The City of McKinney's net assets increased by \$18 million during the current fiscal year, a increase in governmental net assets of \$2 million and an increase in business-type activities of \$16 million. Details are listed in the table below.

**Changes in Net Assets
(in Thousands)**

	Governmental Activities		Business Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Revenues:						
Program revenues:						
Charges for services	\$ 15,918	\$ 13,248	\$ 63,477	\$ 65,927	\$ 79,395	\$ 79,175
Operating grants and contributions	2,344	2,772	-	-	2,344	2,772
Capital grants and contributions	20,326	12,986	10,798	3,483	31,124	16,469
General revenues:						
Property taxes	64,194	62,862	-	-	64,194	62,862
Sales taxes	18,393	17,266	-	-	18,393	17,266
Franchise taxes	12,052	12,051	-	-	12,052	12,051
Investment income	846	1,664	924	1,021	1,770	2,685
Other revenues	619	258	22	47	641	305
Total revenues	134,692	123,107	75,221	70,478	209,913	193,585
Expenses:						
General government	21,828	23,110	-	-	21,828	23,110
Police	21,843	20,671	-	-	21,843	20,671
Fire	19,637	19,773	-	-	19,637	19,773
Libraries	3,259	3,040	-	-	3,259	3,040
Development	8,523	8,778	-	-	8,523	8,778
Parks and recreation	9,696	9,864	-	-	9,696	9,864
Public works	33,200	32,416	-	-	33,200	32,416
Interest on long-term debt	9,514	10,162	-	-	9,514	10,162
Airport	565	565	-	-	565	565
Water/Wastewater	-	-	47,778	46,104	47,778	46,104
Solid Waste	-	-	6,572	6,066	6,572	6,066
Golf Course	-	-	220	224	220	224
Surface Water Drainage	-	-	1,552	1,634	1,552	1,634
Total expenses	128,065	128,379	56,122	54,028	184,187	182,407
Increase (decrease) in net assets before transfers	6,627	(5,272)	19,099	16,450	25,726	11,178
Transfers	2,798	2,643	(2,798)	(2,643)	-	-
Increase (decrease) in net assets	9,425	(2,629)	16,301	13,807	25,726	11,178
Net Assets - Beginning, as restated	377,483	387,504	290,661	276,854	668,144	664,358
Net Assets - Ending	\$ 386,908	\$ 384,875	\$ 306,962	\$ 290,661	\$ 693,870	\$ 675,536

Governmental activities.

Governmental activities increased the City's net assets by \$2 million during the current fiscal year. The key elements of this increase are as follows:

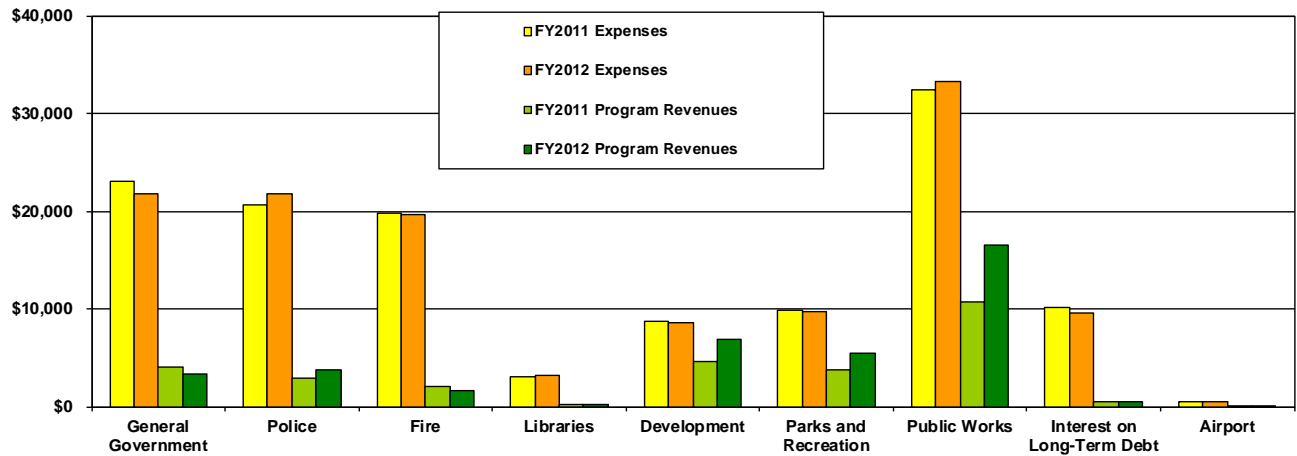
Revenues

- Capital grants and contributions totaled \$20.3 million, an increase of \$7.3 million.

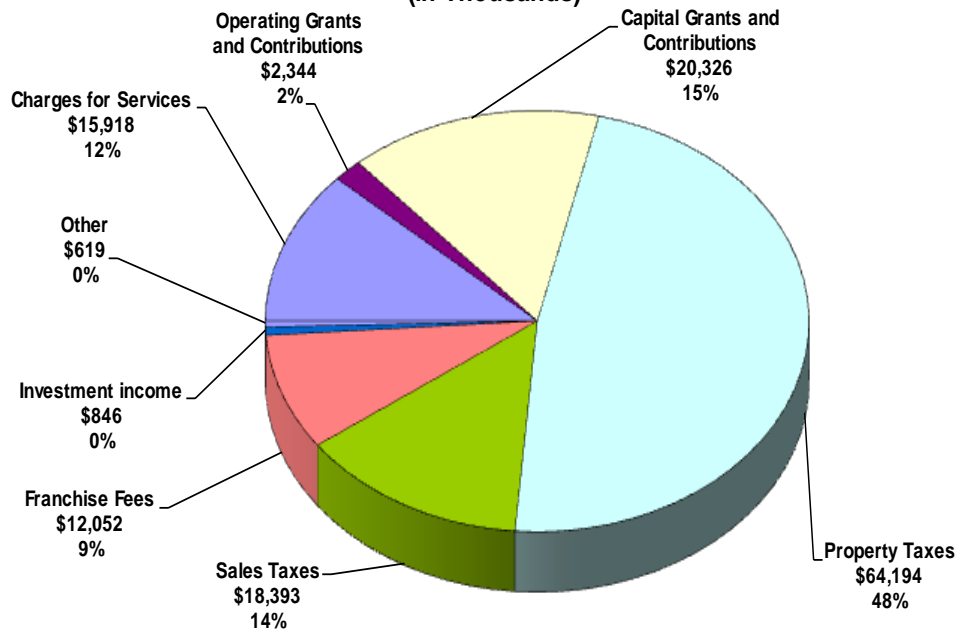
Expenses

- Total expenses decreased because of less spending in capital improvement projects and lower than anticipated expenditures for government operations.

**Expenses and Program Revenues - Governmental Activities
(in Thousands)**



**Revenues by Source - Governmental Activities
(in Thousands)**



Business-type activities.

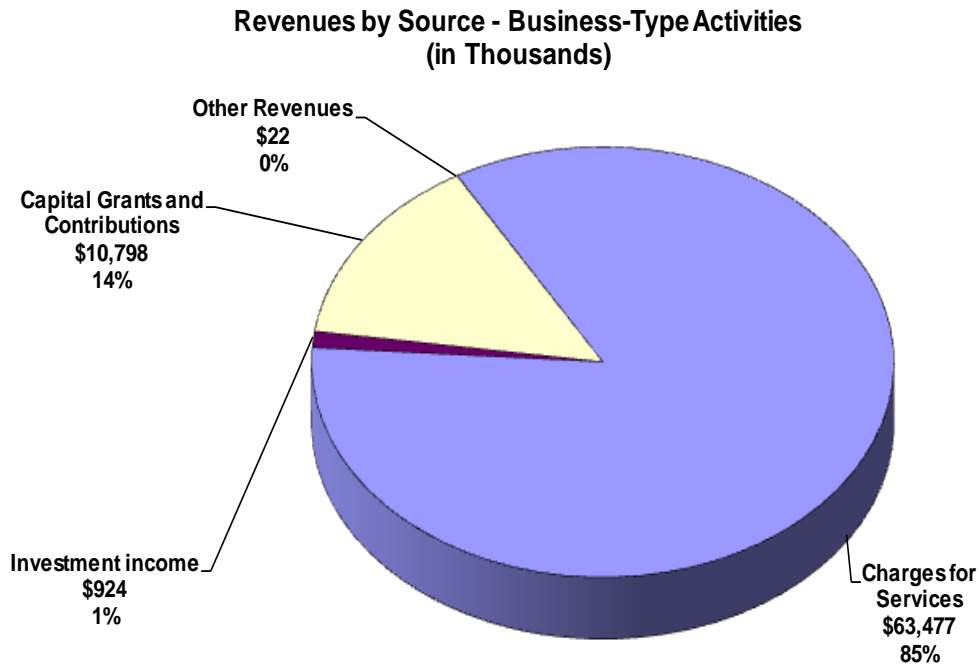
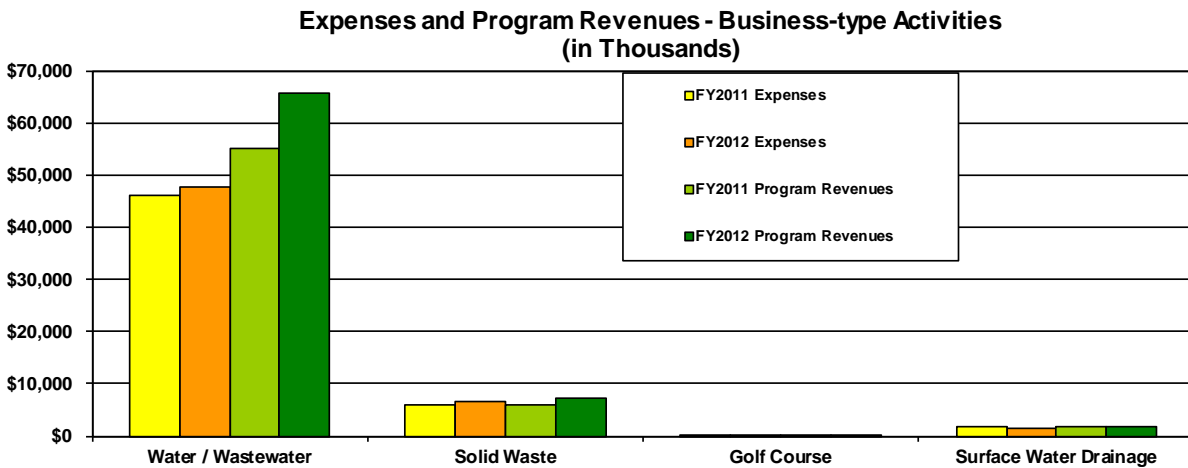
Business-type activities increased the City of McKinney’s net assets by \$16 million, accounting for the majority of the increase in the government’s net assets. Key elements of this increase are as follows:

Revenues

- Capital grants and contributions totaled \$10.8 million, an increase of \$7.3 million.

Expenses

- Expenses in water/wastewater increased \$1.7 million mainly due to the increase in charges on water purchases and sewer service charges from North Texas Municipal Water District.



Financial Analysis of the City's Funds

Governmental funds

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the financing requirements. In particular, unassigned 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 close of the current fiscal year, the governmental funds reported combined ending fund balances of \$121 million, an increase of \$8.7 million or (7.7%) in comparison to the prior year. Approximately \$46.2 million or 38% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either considered nonspendable, restricted, committed, or assigned in conformance with GASB 54 requirements. Please see pages 15-16 for financial details and page 37 for category definitions.

General Fund. The general fund is the chief operating fund of the City of McKinney. At the end of the current fiscal year, the unassigned general fund balance was \$46.2 million, while total fund balance was \$50.4 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 56% of total general fund expenditures.

The general fund balance increased by \$8.4 million or 20% during the current fiscal year. Key factors for this increase are as follows:

- License and Permits Fees increased \$2.5 million due to a rise in building permits.

Debt Service Fund. The debt service fund had a total fund balance of \$1.7 million and was restricted for the payment of debt. There was a net increase of \$0.5 million in fund balance during the current year. The increase in the debt service fund balance was within the budget plan.

Street Construction Fund. The Street Construction Fund is the largest governmental capital project fund. It has an ending fund balance of \$31.3 million. Total expenditures for the current year were \$7.1 million. The large fund balance indicated many unfinished projects. Most of the projects have long duration due to acquisition of right-of-way and construction phases. Major expenditures incurred during the current year include: Ridge Road – South of US 380, Custer Road – Stonebridge Drive to US 380, Lake Forest Drive – US 380 to Wilmeth Road, and US 75 construction by TxDOT.

Facilities Improvement Fund. The Facilities Improvement Fund is a non-major governmental capital project fund. It had an ending fund balance of \$7.6 million. Total expenditures for the current year were \$0.4 million. Major expenditures incurred during the current year were primarily related to the improvements to the Public Safety facility.

Proprietary Funds

The City's proprietary funds provide the same type of information that is found in the government-wide financial statements for business-type activities, but in more detail. At September 30, 2012, net assets of the proprietary funds included the following amounts of unrestricted net assets:

Water and Wastewater Fund. Water and Wastewater Fund net assets increased by \$16.1 million. Operating revenues totaled \$54.7 million, an decrease of \$2.5 million or 4.3%. Operating expenses in the Water and Wastewater Fund were \$44.5 million, an increase of \$2.2 million or 5% over the prior year. This increase was primarily due to payments to North Texas Municipal Water District (NTMWD) for water purchases and sewer service charges.

Solid Waste Fund. The City's Solid Waste Fund net assets increased by \$0.03 million. Operating revenues totaled \$6.8 million, an decrease of \$0.07 million. Expenses were at \$6.6 million, an increase of \$0.5 million.

Golf Course Fund. The Golf Course Fund had an operating loss of about \$0.1 million. Revenues were about \$0.1 million which was the contract fee. Expense was primarily depreciation at \$0.2 million. In October 2008, the management of the golf course was outsourced to a contractor DWW Golf Management. The contractor is responsible for collecting all revenues and budgeting for expenses. Under the contract terms, the City of McKinney collects an amount equal to 8% of gross revenues.

Surface Water Drainage Fund. The Surface Water Drainage Fund operated with charges for services revenues exceeding expenses by \$0.3 million. Charges for services increased slightly from \$1.80 million to \$1.88 million.

General Fund Budgetary Highlights

The actual FY2011-12 expenditures were \$82.8 million, \$5.6 million less than the projected \$88.4 million. This is attributed to a strict adherence to spending policies and closer monitoring of end-of-year budget projections.

Actual revenues were \$90 million, an increase of \$3.5 million over the \$86.5 million budget plan. Franchise fees and licenses/permits revenues can be attributed primarily to this increase.

IV. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At the end of the fiscal year, the City had \$768 million invested in a broad range of capital assets, including land and buildings, roads, bridges, drainage systems, park facilities, police and fire equipment. This amount represents a net decrease (including additions and deductions) of \$10 million over the prior fiscal year.

**Table 4
Capital Assets at Year-end
(Net Accumulated Depreciation, in Thousands)**

	Governmental Activities		Business Type Activities		Total	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Land	\$ 19,744	\$ 13,724	\$ 6,888	\$ 6,525	\$ 26,632	\$ 20,249
Buildings	76,181	78,718	9,301	9,629	85,482	88,347
Infrastructure	321,216	301,000	249,427	224,226	570,643	525,226
Machinery and equipment	19,123	21,935	3,134	3,646	22,257	25,581
Construction in progress	39,172	75,334	23,938	43,313	63,110	118,647
Total	\$ 475,436	\$ 490,711	\$ 292,688	\$ 287,339	\$ 768,124	\$ 778,050

Major capital improvement projects completed or in progress during the current fiscal year were:

<u>Project</u>	<u>(\$ in Thousands)</u>
Airport Replacement Runway	16,321
Alma Road	2,914
Bonnie Wenk Park	2,016
Intersection Improvements	1,993
US 75 Water Main Relocation	1,511

Long-term Debt. At year end, the City had \$280 million in general obligation bonds and certificates of obligation and revenue bonds. The total debt was \$296 million at the end of the prior fiscal year. This represents a decrease of 5%. All outstanding debt is summarized below:

Table 5
Outstanding Debt, at Year-end
(in Thousands)

	Governmental		Business Type		Total	
	Activities		Activities			
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
General obligation bonds and certificates of obligations (backed by the City)	\$205,675	\$217,725	\$ -	\$ -	\$205,675	\$217,725
Revenue bonds (backed by fee revenues)	-	-	74,040	78,635	74,040	78,635
Totals	<u>\$205,675</u>	<u>\$217,725</u>	<u>\$74,040</u>	<u>\$78,635</u>	<u>\$279,715</u>	<u>\$296,360</u>

The City's general obligation bonds and revenue bonds were re-confirmed at AA+ by Standard and Poor's Corporation. Bond rating from Moody's Investor Services also remained the same at Aa2 for general obligation bonds and Aa3 for water works revenue bonds.

Additional information on the long-term debt can be found in the note (3)G to the financial statements.

V. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the economy is the primary factor, City's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for the business-type activities.

The property tax rate for fiscal year 2013 remains the same at \$0.5855 per \$100 assessed value. The homestead exemptions for elderly and disabled persons are fifty thousand dollars.

At the close of the fiscal year 2012, the unassigned general fund balance increased \$4.6 million to \$46.5 million. The use of available fund balance is intended to support operational expenses.

For fiscal year 2012, the water rate and wastewater rates remained the same. The water volume rate is \$3.17 per thousand gallons for all commercial customers and residential, sprinkler/irrigation customers with consumption of up to 20,000 gallons, \$3.96 per thousand gallons if monthly consumption exceeds 20,000 gallons, and \$4.87 per thousand gallons if monthly consumption is over 40,000 gallons. Wastewater rate per thousand gallons of water used is \$3.24. The solid waste charge for residential households remains at \$15.36. This rate includes the single stream recycling program.

Requests For Information

The financial report is designed to provide a general overview of the City of McKinney'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 Chief Financial Officer, City of McKinney, 222 North Tennessee Street, McKinney, Texas 75069.



BASIC FINANCIAL STATEMENTS



**CITY OF MCKINNEY, TEXAS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 96,679,248	\$ 17,961,686	\$ 114,640,934	\$ 34,354,211
Investments	26,018,404	3,554,329	29,572,733	3,025,800
Receivables (net of allowance for uncollectibles)	11,346,286	12,273,589	23,619,875	3,532,840
Internal balances	169,959	(169,959)	-	-
Due from other governments	359,779	2,319,704	2,679,483	48,679
Note receivable from component unit	1,647,500	5,177,500	6,825,000	-
Inventory	193,885	238,099	431,984	-
Land held for sale	315,194	-	315,194	-
Prepaid items	323,532	3,238	326,770	195,537
Deferred charges	826,064	541,844	1,367,908	135,399
Restricted assets:				
Cash and cash equivalents	-	39,818,935	39,818,935	3,410,893
Investments	-	13,439,303	13,439,303	-
Accrued interest receivable	-	122,431	122,431	-
Capital assets:				
Non depreciable	58,915,521	30,827,172	89,742,693	81,709,229
Depreciable (net)	416,519,559	261,861,379	678,380,938	22,905,612
Total Assets	613,314,931	387,969,250	1,001,284,181	149,318,200
LIABILITIES				
Accounts payable	4,298,059	2,459,380	6,757,439	111,800
Other accrued liabilities	4,310,975	1,551,631	5,862,606	42,970
Estimated health claims	1,283,615	-	1,283,615	-
Unearned Revenue	82,665	-	82,665	-
Accrued interest payable	1,131,331	133,604	1,264,935	77,918
Deposits	497,308	2,070,402	2,567,710	22,714
Non Current Liabilities:				
Due within one year:				
Note payable to primary government	-	-	-	1,360,000
Compensated absences	1,139,538	93,227	1,232,765	15,697
Bonds payable	10,525,000	4,455,000	14,980,000	920,000
Due in more than one year:				
Note payable to primary government	-	-	-	5,465,000
Compensated absences	5,309,462	434,369	5,743,831	73,135
Premium on issuance	2,365,922	424,530	2,790,452	-
Deferred refunding amount	(268,320)	(200,814)	(469,134)	-
OPEB liability	580,609	-	580,609	-
Bonds payable	195,150,000	69,585,000	264,735,000	14,640,000
Total Liabilities	226,406,164	81,006,329	307,412,493	22,729,234
NET ASSETS				
Invested in capital assets (net of related debt)	274,618,286	218,424,139	493,042,425	87,203,543
Restricted for:				
Use of impact fees	4,549,816	5,025,467	9,575,283	-
Highways and streets	22,246,699	-	22,246,699	-
Debt service	888,855	5,324,601	6,213,456	1,586,109
Other capital projects	36,259,889	-	36,259,889	-
Public Safety	573,763	-	573,763	-
Community development	309,242	-	309,242	-
Library	168,894	-	168,894	-
Cultural and recreation	6,371	-	6,371	-
Grants	452,431	-	452,431	-
Unrestricted	46,834,521	78,188,714	125,023,235	37,799,314
Total Net Assets	\$ 386,908,767	\$ 306,962,921	\$ 693,871,688	\$ 126,588,966

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Function/Program Activities	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$ 21,828,013	\$ 2,896,926	\$ 484,109
Police	21,843,375	3,449,850	374,643
Fire	19,636,533	1,620,136	15,143
Libraries	3,258,633	106,890	84,222
Development	8,522,548	6,299,051	633,618
Parks and recreation	9,695,909	1,012,260	751,965
Public works	33,199,659	-	-
Interest on long-term debt	9,514,103	528,000	-
Airport	565,000	4,767	-
Total governmental activities	128,063,773	15,917,880	2,343,700
Business-type activities:			
Water/wastewater	47,777,509	54,717,547	-
Solid waste	6,572,110	6,763,746	-
Golf course	220,140	115,177	-
Surface water drainage	1,551,577	1,880,951	-
Total business-type activities	56,121,336	63,477,421	-
Total primary government	\$ 184,185,109	\$ 79,395,301	\$ 2,343,700
Component units:			
Governmental Activities:			
McKinney Economic Development Corp	\$ 2,353,662	\$ 127,000	\$ -
McKinney Community Development Corp	4,034,965	-	-
McKinney Convention & Visitors Bureau	441,815	-	459,370
Total governmental activities	6,830,442	127,000	459,370
Business-type activities:			
Collin County Airport Development Corp	2,334,617	475,849	751,694
Total component units	\$ 9,165,059	\$ 602,849	\$ 1,211,064

General revenues:

Property taxes
Sales taxes
Franchise taxes
Investment income
Gain on sale of capital assets
Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets
Net assets - beginning, as restated
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
\$ -	\$ (18,446,978)	\$ -	\$ (18,446,978)	\$ -
-	(18,018,882)	-	(18,018,882)	-
-	(18,001,254)	-	(18,001,254)	-
-	(3,067,521)	-	(3,067,521)	-
-	(1,589,879)	-	(1,589,879)	-
3,752,723	(4,178,961)	-	(4,178,961)	-
16,573,074	(16,626,585)	-	(16,626,585)	-
-	(8,986,103)	-	(8,986,103)	-
-	(560,233)	-	(560,233)	-
<u>20,325,797</u>	<u>(89,476,396)</u>	<u>-</u>	<u>(89,476,396)</u>	<u>-</u>
10,797,849	-	17,737,887	17,737,887	-
-	-	191,636	191,636	-
-	-	(104,963)	(104,963)	-
-	-	329,374	329,374	-
<u>10,797,849</u>	<u>-</u>	<u>18,153,934</u>	<u>18,153,934</u>	<u>-</u>
<u>\$ 31,123,646</u>	<u>\$ (89,476,396)</u>	<u>\$ 18,153,934</u>	<u>\$ (71,322,462)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ (2,226,662)
-	-	-	-	(4,034,965)
-	-	-	-	17,555
-	-	-	-	<u>(6,244,072)</u>
12,688,345	-	-	-	11,581,271
<u>\$ 12,688,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,337,199</u>
	\$ 64,193,735	\$ -	\$ 64,193,735	\$ -
	18,392,901	-	18,392,901	17,519,507
	12,051,980	-	12,051,980	-
	846,135	924,457	1,770,592	128,501
	-	22,270	22,270	-
	618,827	-	618,827	-
	<u>2,798,302</u>	<u>(2,798,302)</u>	<u>-</u>	<u>-</u>
	<u>98,901,880</u>	<u>(1,851,575)</u>	<u>97,050,305</u>	<u>17,648,008</u>
	9,425,484	16,302,359	25,727,843	22,985,207
	<u>377,483,283</u>	<u>290,660,562</u>	<u>668,143,845</u>	<u>103,603,759</u>
	<u>\$ 386,908,767</u>	<u>\$ 306,962,921</u>	<u>\$ 693,871,688</u>	<u>\$ 126,588,966</u>

**CITY OF MCKINNEY, TEXAS
BALANCE SHEET-GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	<u>General</u>	<u>Debt Service</u>
ASSETS		
Cash and cash equivalents	\$ 32,384,259	\$ 1,704,951
Investments	16,716,840	-
Receivables (net of allowance for uncollectibles):		
Delinquent property taxes	987,030	427,039
Accounts	3,390,910	-
Other taxes and fees	6,220,896	-
Accrued interest	98,845	-
Due from other funds	329,959	-
Due from other governments	46,752	-
Note receivable from component unit	1,647,500	-
Inventory	193,885	-
Land held for sale	315,194	-
Prepaid items	304,556	-
Total Assets	<u>\$ 62,636,626</u>	<u>\$ 2,131,990</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable	\$ 2,251,732	\$ -
Other accrued liabilities	3,238,081	-
Estimated health claims	1,283,615	-
Deposits	497,308	-
Due to other funds	-	-
Deferred revenue:		
Delinquent property taxes	953,432	412,349
Accounts	3,085,325	-
Other taxes	965,554	-
Total liabilities	<u>12,275,047</u>	<u>412,349</u>
FUND BALANCES:		
NONSPENDABLE:		
Inventory	193,885	-
Prepaid items	304,556	-
Land held for sale	315,194	-
Note receivable from component unit	1,647,500	-
RESTRICTED:		
Debt service	-	1,719,641
Street construction	-	-
Other capital projects funds	-	-
Law enforcement	-	-
Fire	-	-
Library	-	-
Community housing	-	-
Veterans Memorial Park	-	-
Hotel/Motel	-	-
Grants	-	-
ASSIGNED:		
OPEB	1,692,681	-
UNASSIGNED	<u>46,207,763</u>	<u>-</u>
Total fund balances	<u>50,361,579</u>	<u>1,719,641</u>
Total liabilities and fund balances	<u>\$ 62,636,626</u>	<u>\$ 2,131,990</u>

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

<u>Street Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 23,626,455	\$ 38,963,583	\$ 96,679,248
9,301,564	-	26,018,404
-	-	1,414,069
-	6,230	3,397,140
-	198,056	6,418,952
17,280	-	116,125
-	-	329,959
-	313,027	359,779
-	-	1,647,500
-	-	193,885
-	-	315,194
-	18,976	323,532
<u>\$ 32,945,299</u>	<u>\$ 39,499,872</u>	<u>\$ 137,213,787</u>

\$ 804,285	\$ 1,242,042	\$ 4,298,059
794,683	278,211	4,310,975
-	-	1,283,615
-	-	497,308
-	160,000	160,000
-	-	1,365,781
-	30,053	3,115,378
-	-	965,554
<u>1,598,968</u>	<u>1,710,306</u>	<u>15,996,670</u>

-	-	193,885
-	18,976	323,532
-	-	315,194
-	-	1,647,500
-	-	1,719,641
31,346,331	-	31,346,331
-	36,259,889	36,259,889
-	549,780	549,780
-	23,983	23,983
-	168,894	168,894
-	56,485	56,485
-	6,371	6,371
-	309,242	309,242
-	395,946	395,946
-	-	1,692,681
-	-	46,207,763
<u>31,346,331</u>	<u>37,789,566</u>	<u>121,217,117</u>
<u>\$ 32,945,299</u>	<u>\$ 39,499,872</u>	<u>\$ 137,213,787</u>



**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total fund balance-governmental funds.	\$ 121,217,117
Certain bond related items are expensed at the fund level, but are capitalized at the government-wide level and amortized over the life of the asset.	826,064
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	774,679,497
Accumulated depreciation has not been included in the governmental fund financial statements.	(299,244,417)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(6,449,000)
Bonds payable and contractual obligations have not been included in the governmental fund financial statements.	(205,675,000)
For debt refunding, the difference between the acquisition price and the net carrying amount of the debt has been deferred and amortized in the government-wide financial statements.	268,320
OPEB liability has not been included in the governmental fund financial statements.	(580,609)
Premiums on issuance of debt are recognized as other financing sources in the governmental fund financial statements, but are recognized over the life of the bonds at the government-wide level.	(2,365,922)
Revenue reported as deferred revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	5,364,048
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	<u>(1,131,331)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 386,908,767</u></u>

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>General</u>	<u>Debt Service</u>
REVENUES		
Property taxes	\$ 44,464,213	\$ 19,632,748
Sales and use taxes	17,060,736	-
Franchise fees	12,113,230	-
Licenses and permits	7,204,700	-
Intergovernmental	195,657	-
Charges for services	5,359,718	528,000
Fines and forfeitures	1,936,296	-
Investment income	480,469	42,454
Contributions	766,970	-
Miscellaneous	429,568	-
Total Revenues	<u>90,011,557</u>	<u>20,203,202</u>
EXPENDITURES		
Current:		
General government	17,917,397	-
Police	19,833,335	-
Fire	17,285,055	-
Libraries	2,606,698	-
Development	6,935,110	-
Parks and recreation	6,952,815	-
Public works	9,919,636	-
Airport	565,000	-
Debt Service:		
Principal retirement	-	10,390,000
Interest and fiscal charges	-	9,466,819
Capital Expenditures:		
General government	270,746	-
Police	135,076	-
Libraries	-	-
Parks and recreation	68,100	-
Public works	317,788	-
Total expenditures	<u>82,806,756</u>	<u>19,856,819</u>
Excess (deficiency) of revenues over expenditures	<u>7,204,801</u>	<u>346,383</u>
OTHER FINANCING SOURCES (USES)		
Issuance of long-term debt	-	14,670,000
Deposit to bond refunding escrow account	-	(16,685,444)
Premium on issuance of debt	-	2,127,248
Proceeds from sale of property	69,345	-
Transfers in	2,786,696	-
Transfers out	(1,665,449)	-
Total other financing sources (uses)	<u>1,190,592</u>	<u>111,804</u>
Net change in fund balances	8,395,393	458,187
Fund balances, beginning of year, as restated	<u>41,966,186</u>	<u>1,261,454</u>
Fund balances, end of year	<u>\$ 50,361,579</u>	<u>\$ 1,719,641</u>

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

<u>Street Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 97,557	\$ 64,194,518
-	1,282,102	18,342,838
-	-	12,113,230
-	-	7,204,700
4,018,647	1,442,491	5,656,795
-	4,767	5,892,485
-	571,411	2,507,707
195,905	127,307	846,135
2,877,082	3,794,829	7,438,881
-	231,909	661,477
<u>7,091,634</u>	<u>7,552,373</u>	<u>124,858,766</u>
-	1,103,322	19,020,719
-	452,365	20,285,700
-	17,680	17,302,735
-	168,786	2,775,484
-	1,184,183	8,119,293
-	2,179	6,954,994
962,759	-	10,882,395
-	-	565,000
-	-	10,390,000
-	-	9,466,819
-	183,639	454,385
-	252,964	388,040
-	374,585	374,585
-	4,999,478	5,067,578
6,138,821	761,843	7,218,452
<u>7,101,580</u>	<u>9,501,024</u>	<u>119,266,179</u>
<u>(9,946)</u>	<u>(1,948,651)</u>	<u>5,592,587</u>
-	-	14,670,000
-	-	(16,685,444)
-	-	2,127,248
-	135,891	205,236
-	1,719,285	4,505,981
-	(42,230)	(1,707,679)
-	1,812,946	3,115,342
(9,946)	(135,705)	8,707,929
31,356,277	37,925,271	112,509,188
<u>\$ 31,346,331</u>	<u>\$ 37,789,566</u>	<u>\$ 121,217,117</u>

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances- total governmental funds.	\$ 8,707,929
Current year capital outlays are expenditures in the fund financial statements, but they are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2012 capital outlays is to increase net assets.	13,503,040
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net assets.	(30,272,787)
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	10,390,000
Current year bond proceeds are other financing sources in the governmental funds financial statements, but are shown as an increase in liabilities in the government-wide financial statements.	(14,670,000)
Current year payment to escrow agent for refunded debt are other financing uses in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	16,685,444
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.	(30,104)
Bond issuance costs are expenditures in the fund financial statements when debt is issued, but are amortized over the term of the bond in the government-wide financial statements.	(32,883)
Additions to vacation and sick liabilities are not shown in the fund financial statements. The net effect of the current year increase is to decrease net assets.	(2,042,144)
Changes in the other post employment benefit assets and liabilities are not reported at the fund level; however they are reported at the government-wide level.	(152,020)
Premium and discounts are recognized in the fund financial statements as other financing sources or uses, but they are amortized over the term of the bonds in the government-wide financial statements.	(1,923,140)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	267,845
Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.	9,564,344
Amortization of deferred refunding amounts is not recognized in the governmental funds. The effect of recording current years amortization is to decrease net assets.	(78,405)
In governmental fund financial statements the proceeds from a sale of assets are shown as an increase in financial resources. In the government-wide financial statements, the gain or loss is calculated and reported.	<u>(491,635)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 9,425,484</u>

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES- BUDGET (GAAP BASIS) AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
REVENUES				
Property taxes	\$ 44,501,399	\$ 44,420,498	\$ 44,464,213	\$ 43,715
Sales and use taxes	16,450,000	15,783,778	17,060,736	1,276,958
Franchise fees	11,779,000	11,779,000	12,113,230	334,230
Licenses and permits	4,237,250	5,436,581	7,204,700	1,768,119
Intergovernmental	305,000	337,633	195,657	(141,976)
Charges for services	5,536,899	5,418,826	5,359,718	(59,108)
Fines and forfeitures	2,093,500	2,112,445	1,936,296	(176,149)
Investment income	902,600	397,307	480,469	83,162
Contributions	446,781	469,265	766,970	297,705
Miscellaneous	164,200	380,681	429,568	48,887
Total revenues	<u>86,416,629</u>	<u>86,536,014</u>	<u>90,011,557</u>	<u>3,475,543</u>
EXPENDITURES				
General government	21,068,669	20,714,621	18,188,143	2,526,478
Police	21,026,625	21,411,895	19,968,411	1,443,484
Fire	17,537,686	17,537,686	17,285,055	252,631
Libraries	2,835,097	2,835,097	2,606,698	228,399
Development	7,900,470	7,988,032	6,935,110	1,052,922
Parks and recreation	7,288,286	7,321,022	7,020,915	300,107
Public works	9,999,835	10,025,185	10,237,424	(212,239)
Airport	565,000	565,000	565,000	-
Total expenditures	<u>88,221,668</u>	<u>88,398,538</u>	<u>82,806,756</u>	<u>5,591,782</u>
Excess (deficiency) of revenues over expenditures	<u>(1,805,039)</u>	<u>(1,862,524)</u>	<u>7,204,801</u>	<u>9,067,325</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	50,000	69,345	69,345	-
Transfers in	3,086,696	3,086,696	2,786,696	(300,000)
Transfers out	(1,157,782)	(1,157,782)	(1,665,449)	(507,667)
Total other financing sources (uses)	<u>1,978,914</u>	<u>1,998,259</u>	<u>1,190,592</u>	<u>(807,667)</u>
Net change in fund balances	173,875	135,735	8,395,393	8,259,658
Fund balances, beginning of year	41,966,186	41,966,186	41,966,186	-
Fund balances, end of year	<u>\$ 42,140,061</u>	<u>\$ 42,101,921</u>	<u>\$ 50,361,579</u>	<u>\$ 8,259,658</u>

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

**CITY OF MCKINNEY , TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Enterprise Funds	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,038,806	\$ 6,922,880	\$ 17,961,686
Investments	3,024,329	530,000	3,554,329
Restricted assets:			
Cash and cash equivalents	39,808,935	10,000	39,818,935
Receivables (net of allowance for uncollectibles)	10,428,065	1,843,536	12,271,601
Accrued interest receivable	-	1,988	1,988
Due from other funds	10,907	-	10,907
Notes receivable- interfund	-	970,753	970,753
Notes receivable- component unit	-	5,177,500	5,177,500
Due from other governments	2,319,704	-	2,319,704
Inventory	238,099	-	238,099
Prepaid items	-	3,238	3,238
Total current assets	66,868,845	15,459,895	82,328,740
Non-current assets:			
Restricted assets:			
Investments	13,439,303	-	13,439,303
Accrued interest receivable	122,431	-	122,431
Total restricted assets	13,561,734	-	13,561,734
Deferred charges	541,844	-	541,844
Capital assets:			
Land	6,321,625	566,509	6,888,134
Buildings	12,063,555	1,663,564	13,727,119
Improvements other than buildings	307,252,794	3,158,498	310,411,292
Machinery and equipment	6,403,464	862,382	7,265,846
Construction in progress	23,939,038	-	23,939,038
Less accumulated depreciation	(66,413,559)	(3,129,319)	(69,542,878)
Total capital assets (net of accumulated depreciation)	289,566,917	3,121,634	292,688,551
Total non-current assets	303,670,495	3,121,634	306,792,129
TOTAL ASSETS	\$ 370,539,340	\$ 18,581,529	\$ 389,120,869

(continued)

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

**CITY OF MCKINNEY , TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Enterprise Funds	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,497,532	\$ 139,080	\$ 1,636,612
Other accrued liabilities	363,918	577,570	941,488
Due to other funds	145,794	35,072	180,866
Note payable- interfund	-	46,312	46,312
Compensated absences	74,025	19,202	93,227
Accrued interest payable	133,604	-	133,604
Total current liabilities unrestricted	2,214,873	817,236	3,032,109
Liabilities (payable from restricted assets):			
Accounts payable	822,768	-	822,768
Revenue bonds payable, current	4,455,000	-	4,455,000
Other accrued liabilities	610,143	-	610,143
Deposits	2,060,402	10,000	2,070,402
Total current liabilities (payable from restricted assets)	7,948,313	10,000	7,958,313
Total current liabilities	10,163,186	827,236	10,990,422
Non-current liabilities:			
Compensated absences	344,903	89,466	434,369
Note payable- interfund	-	924,441	924,441
Revenue bonds, certificates of obligation payable	69,585,000	-	69,585,000
Deferred refunding amount	(200,814)	-	(200,814)
Premium on bonds	424,530	-	424,530
Total noncurrent liabilities	70,153,619	1,013,907	71,167,526
TOTAL LIABILITIES	80,316,805	1,841,143	82,157,948
NET ASSETS			
Invested in capital assets, net of related debt	215,302,505	3,121,634	218,424,139
Restricted for:			
Use of impact fees	5,025,467	-	5,025,467
Debt service	5,324,601	-	5,324,601
Unrestricted	64,569,962	13,618,752	78,188,714
TOTAL NET ASSETS	\$ 290,222,535	\$ 16,740,386	\$ 306,962,921

(concluded)

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

**CITY OF MCKINNEY , TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Enterprise Funds	Total
OPERATING REVENUES			
Charges for services	\$ 54,693,803	\$ 8,593,723	\$ 63,287,526
Miscellaneous	23,744	166,151	189,895
Total operating revenues	54,717,547	8,759,874	63,477,421
OPERATING EXPENSES			
Personnel services	5,326,399	1,518,880	6,845,279
Materials and supplies	618,492	87,717	706,209
Maintenance	498,428	262,695	761,123
Purchase of water	25,759,206	-	25,759,206
Contract payments	3,389,841	6,026,933	9,416,774
Utilities	1,037,377	10,727	1,048,104
Depreciation	6,630,460	253,596	6,884,056
Other	1,190,945	183,279	1,374,224
Total operating expenses	44,451,148	8,343,827	52,794,975
Operating income	10,266,399	416,047	10,682,446
NON-OPERATING REVENUES (EXPENSES)			
Investment income	685,785	238,672	924,457
Interest and fiscal charges	(3,282,547)	-	(3,282,547)
Amortization of deferred refunding amount	(43,814)	-	(43,814)
Gain from disposal of assets	22,270	-	22,270
Total non-operating revenues (expenses)	(2,618,306)	238,672	(2,379,634)
Income before contributions and transfers	7,648,093	654,719	8,302,812
Contributions	10,797,849	-	10,797,849
Transfers out	(2,339,143)	(459,159)	(2,798,302)
Change in net assets	16,106,799	195,560	16,302,359
Total net assets-beginning	274,115,736	16,544,826	290,660,562
Total net assets-ending	\$ 290,222,535	\$ 16,740,386	\$ 306,962,921

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 51,679,839	\$ 8,925,817	\$ 60,605,656
Other operating revenues	23,744	166,151	189,895
Cash payments to employees for services	(5,168,289)	(1,486,963)	(6,655,252)
Cash payments to suppliers for goods and services	(32,083,075)	(6,522,305)	(38,605,380)
Net cash provided by operating activities	14,452,219	1,082,700	15,534,919
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(2,339,143)	(459,159)	(2,798,302)
Cash used in noncapital financing activities	(2,339,143)	(459,159)	(2,798,302)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on bonds	(9,765,000)	-	(9,765,000)
Bond proceeds	5,170,000	-	5,170,000
Premium on issuance	364,670	-	364,670
Principal paid on loans	-	(45,515)	(45,515)
Proceeds from advances	-	45,515	45,515
Debt issuance costs	(67,500)	-	(67,500)
Interest and fiscal charges on debt	(3,456,240)	-	(3,456,240)
Acquisition and construction of capital assets	(7,473,331)	-	(7,473,331)
Proceeds from sale of assets	22,270	-	22,270
Capital grants	2,346,008	-	2,346,008
Contributions	3,691,258	-	3,691,258
Cash used in capital and related financing activities	(9,167,865)	-	(9,167,865)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(6,460,000)	(530,000)	(6,990,000)
Proceeds from sale and maturities of securities	21,386,000	-	21,386,000
Investment earnings	417,948	236,685	654,633
Cash provided by (used in) investing activities	15,343,948	(293,315)	15,050,633
Net increase in cash	18,289,159	330,226	18,619,385
Cash and cash equivalents at beginning of year	32,558,582	6,602,654	39,161,236
Cash and cash equivalents at end of year	\$ 50,847,741	\$ 6,932,880	\$ 57,780,621
RECONCILIATION OF TOTAL CASH TO THE STATEMENT OF NET ASSETS			
Unrestricted cash and cash equivalents	\$ 11,038,806	\$ 6,922,880	\$ 17,961,686
Restricted cash and cash equivalents	39,808,935	10,000	39,818,935
	\$ 50,847,741	\$ 6,932,880	\$ 57,780,621
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 10,266,399	\$ 416,047	\$ 10,682,446
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,630,460	253,596	6,884,056
Provision for bad debt	(34,808)	(23,210)	(58,018)
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(3,020,430)	355,304	(2,665,126)
Due from other funds	(2,849)	-	(2,849)
Inventory	48,207	1,526	49,733
Prepaid expense	-	(3,238)	(3,238)
Increase (decrease) in liabilities:			
Accounts payable	273,745	113,690	387,435
Accrued liabilities	376,648	43,523	420,171
Due to other funds	(284,822)	(103,265)	(388,087)
Liability for accrued vacation	155,546	28,727	184,273
Deposits	44,123	-	44,123
Total adjustments	4,185,820	666,653	4,852,473
Net cash provided by operating activities	\$ 14,452,219	\$ 1,082,700	\$ 15,534,919
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Non-cash change in fair value of assets	\$ (256,795)	\$ -	\$ (256,795)

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUND
SEPTEMBER 30, 2012**

	<u>Agency Fund</u>
	<u>BB Owen Park</u>
ASSETS	
Cash and cash equivalents	\$ 10,952,722
Total assets	<u>\$ 10,952,722</u>
LIABILITIES	
Other accrued liabilities	\$ 10,952,722
Total liabilities	<u>\$ 10,952,722</u>

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2012**

	Governmental Activities			Business-Type	Total
	McKinney Economic Dev. Corporation	McKinney Community Dev. Corporation	McKinney Convention & Visitors Bureau	Collin County Airport Dev. Corporation	
ASSETS					
Cash and cash equivalents	\$ 10,289,496	\$ 22,993,725	\$ 318,177	\$ 752,813	\$ 34,354,211
Investments	-	3,025,800	-	-	3,025,800
Receivables (net of allowance for uncollectibles)	1,752,571	1,778,223	250	1,796	3,532,840
Due from other governments	-	-	-	48,679	48,679
Prepaid items	176,393	10,756	8,388	-	195,537
Deferred charges	135,399	-	-	-	135,399
Restricted assets:					
Cash and cash equivalents	1,586,109	-	-	1,824,784	3,410,893
Capital assets:					
Non depreciable	23,327,476	4,970,062	-	53,411,691	81,709,229
Depreciable (net)	89,060	2,705,255	-	20,111,297	22,905,612
Total Assets	37,356,504	35,483,821	326,815	76,151,060	149,318,200
LIABILITIES					
Accounts payable	53,499	34,790	6,151	17,360	111,800
Other accrued liabilities	6,500	24,241	3,561	8,668	42,970
Accrued interest payable	77,918	-	-	-	77,918
Deposits	-	-	-	22,714	22,714
Non Current Liabilities:					
Due within one year:					
Note payable to primary government	1,360,000	-	-	-	1,360,000
Compensated absences	3,958	1,846	1,967	7,926	15,697
Bonds payable	920,000	-	-	-	920,000
Due in more than one year:					
Note payable to primary government	5,465,000	-	-	-	5,465,000
Compensated absences	18,443	8,602	9,162	36,928	73,135
Bonds payable	14,640,000	-	-	-	14,640,000
Total Liabilities	22,545,318	69,479	20,841	93,596	22,729,234
NET ASSETS					
Invested in capital assets (net of related debt)	6,005,238	7,675,317	-	73,522,988	87,203,543
Restricted for:					
Debt service	1,586,109	-	-	-	1,586,109
Unrestricted	7,219,839	27,739,025	305,974	2,534,476	37,799,314
Total Net Assets	\$ 14,811,186	\$ 35,414,342	\$ 305,974	\$ 76,057,464	\$ 126,588,966

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

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
McKinney Economic Development Corp	\$ 2,353,662	\$ 127,000	\$ -
McKinney Community Development Corp	4,034,965	-	-
McKinney Convention & Visitors Bureau	441,815	-	459,370
Total governmental activities	<u>6,830,442</u>	<u>127,000</u>	<u>459,370</u>
Business-type activities:			
Collin County Airport Development Corp	2,334,617	475,849	751,694
Total business-type activities			
Total component units	<u>\$ 9,165,059</u>	<u>\$ 602,849</u>	<u>\$ 1,211,064</u>

General revenues:
Sales taxes
Investment income
Total general revenues
Change in net assets
Net assets - beginning as restated
Net assets - ending

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

Capital Grants and Contributions	Component Units				Total
	McKinney Economic Dev. Corporation	McKinney Community Dev. Corporation	McKinney Convention & Visitors Bureau	Collin County Airport Dev. Corporation	
\$ -	\$ (2,226,662)	\$ -	\$ -	\$ -	\$ (2,226,662)
-	-	(4,034,965)	-	-	(4,034,965)
-	-	-	17,555	-	17,555
-	(2,226,662)	(4,034,965)	17,555	-	(6,244,072)
12,688,345	-	-	-	11,581,271	11,581,271
<u>\$ 12,688,345</u>	<u>\$ (2,226,662)</u>	<u>\$ (4,034,965)</u>	<u>\$ 17,555</u>	<u>\$ 11,581,271</u>	<u>\$ 5,337,199</u>
	\$ 8,759,753	\$ 8,759,754	\$ -	\$ -	\$ 17,519,507
	43,844	64,713	1,661	18,283	128,501
	8,803,597	8,824,467	1,661	18,283	17,648,008
	6,576,935	4,789,502	19,216	11,599,554	22,985,207
	8,234,251	30,624,840	286,758	64,457,910	103,603,759
	<u>\$ 14,811,186</u>	<u>\$ 35,414,342</u>	<u>\$ 305,974</u>	<u>\$ 76,057,464</u>	<u>\$ 126,588,966</u>

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of McKinney (the City) was incorporated in 1848. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, culture, recreation and waterworks.

The City reports in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City's financial activities for the fiscal year ended September 30, 2012.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the original adopted and final amended General Fund budget with actual results.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. The City is governed by an elected mayor and six-member council. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units have been combined and reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. Combining statements for the four discretely presented component units have also been presented in the basic financial statements following the fund information.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

The McKinney Economic Development Corporation (MEDC) is a discretely presented component unit in the basic financial statements. The governing body of the MEDC is appointed by the City Council and the MEDC's operating budget is subject to approval of the City Council. The City does not have a voting majority of the corporation. The purpose of the MEDC is to aid, promote and further the economic development within the City. The MEDC is financed with a voter-approved half-cent city sales tax. The nature and significance of the relationship between the primary government and the organization is such that exclusion would cause the City's financial statements to be misleading or incomplete. The MEDC has a September 30 year-end. Under a contract with the MEDC, the City performs financial services for the MEDC. There are no separately issued financial statements of the MEDC, which is reported as a governmental fund. For more information about the MEDC, refer to Note 11.

The McKinney Community Development Corporation (MCDC) is also a discretely presented component unit in the basic financial statements. The MCDC is governed by a seven-member board appointed by the City Council, and at least three board members cannot be City employees or Council members. The City does not have a voting majority of the corporation. The purpose of the MCDC is to identify and fund public projects to maintain or enhance the quality of life reflecting hometown values and priorities, visionary planning, balanced needs, and fiscal responsibility for current and future residents, visitors and businesses of our community. The MCDC is financed with a voter-approved half-cent city sales tax. The nature and significance of the relationship between the primary government and the organization is such that exclusion would cause the City's financial statements to be misleading or incomplete. The MCDC has a September 30 year-end. Under a contract with the MCDC, the City performs financial services for the MCDC. There are no separately issued financial statements of the MCDC, which is reported as a governmental fund. For more information about the MCDC, refer to Note 12.

The Collin County Airport Development Corporation (CCADC), formerly the McKinney Airport Development Corporation (MADC), is a discretely presented component unit in the basic financial statements. In May 2012, a resolution was passed to rename the discretely presented component unit to the Collin County Airport Development Corporation. The governing body of the CCADC is appointed by the City Council and the CCADC's operating and capital budget is subject to approval of the City Council. The City does not have a voting majority of the corporation. The purpose of the CCADC is to provide an economic engine for the entire region facilitating general and business aviation and related services. The CCADC operating budget is financed by contributions from the City's General Fund and charges for services, while the capital is financed primarily by Federal Aviation Administration grants passed through the Texas Department of Transportation Aviation Division, City backed general obligation and certificates of obligations bonds and sales tax funds awarded by the McKinney Economic Development Corporation for economic development. The nature and significance of the relationship between the primary government and the organization is such that exclusion would cause the City's financial statements to be misleading or incomplete. The CCADC has a September 30 year-end. Under a contract with the CCADC, the City performs financial services for the CCADC. There are no separately issued financial statements of the CCADC, which is reported as a proprietary fund. For more information about the CCADC, refer to Note 13.

The McKinney Convention & Visitors Bureau (MCVB) is a discretely presented component unit in the basic financial statements. The governing body of the MCVB is appointed by the City Council and the MCVB's budget is subject to approval of the City Council. The City does not have a voting majority of the corporation. The MCVB budget is financed primarily by hotel/motel occupancy taxes. The MCVB is a separate legal entity from the City and its sole purpose is to promote McKinney as the destination of choice. The MCVB has a September 30 year-end. Under a contract with the MCVB, the City performs financial services for the MCVB.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

There are no separately issued financial statements of the MCVB. For more information about the MCVB, refer to Note 14.

C. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) 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 non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. Additionally, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

Separate fund 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 funds financial statements. The major governmental funds are the general fund, debt service fund, and the street construction fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's water and wastewater 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.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 wastewater enterprise fund and the solid waste enterprise fund are charges to customers for sales and services. The water and wastewater 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 service, administrative expenses, and depreciation on capital assets.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

All revenues and expenses not meeting the definition are reported as non-operating 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.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989.

Governmental fund level 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. The governmental fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

Property taxes, franchise fees, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fund Accounting

The following major funds are used by the City:

1. Governmental Funds:

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major Governmental Funds of the City:

- a. **The General Fund** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.
- b. **The Debt Service Fund** is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid from taxes levied by the City.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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- c. **The Street Construction Fund** is used to account for the acquisition or construction of streets and storm sewer projects being financed from general obligation or certificate of obligation bond proceeds, grants, or transfers from other funds.

Other Governmental Funds is a summarization of all of the non-major governmental funds.

2. Proprietary Funds:

Proprietary Funds are accounted for using an economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The following is a description of the major proprietary fund of the City:

- a. **The Water and Wastewater Fund** is used to account for the operations of the water and wastewater system.

Other Proprietary Funds is a summarization of all of the non-major proprietary funds.

3. Agency fund:

Agency Fund: The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, property owners, and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. The activities of these funds are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose.

E. Cash and Cash Equivalents

Cash of all funds, excluding the City's payroll clearing account, medical card account, emergency medical service, insurance bank account, law enforcement bank account, and certain escrow accounts, is pooled into a common interest-earning bank account in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash has equity therein, and interest earned on these monies is allocated based upon relative equity at each month end.

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

The City may invest in certificates of deposit, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements. Investments purchased with pooled cash, as well as separate investments, are recorded at cost and adjusted to fair value at year-end for securities with a maturity of one year or more from the date of investment. The fair value is based on the market price. The fair value of the local government investment pools are the same as the fair value of the pool shares. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Realized gains and losses on investments that have been held during more than one fiscal year, and sold in the current, were included as a change in the fair value of the investments reported in the prior year and the current year. Management's intent is to hold all investments to maturity.

F. Inventories, Prepaid Items and Deferred Charges

Inventory is valued at cost (first-in, first-out). The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Reported inventories are also classified as nonspendable fund balance, which indicates that they do not constitute "available, spendable resources" even though they are a component of fund balance. The City is not required to maintain a minimum level of inventory. Inventories in the Proprietary Funds consist of supplies and are recorded at the lower of cost or market.

Prepaid balances are for payments made by the City for which benefits extend beyond September 30, 2012, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances are recorded as an expenditure when consumed rather than when purchased.

Deferred charges reported at the government-wide level and in proprietary funds are comprised of the balance of unamortized debt issuance costs. The City's policy is to amortize issuance costs over the life of the related debt using the effective interest method.

G. Interfund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts, and are reported as "due to/from other funds." Long-term advances between funds are reported as "advances to/from other funds" and represent the non-current portion of interfund loans.

Legally authorized transfers are treated as transfers and are included in the results of operations of both governmental and proprietary funds.

H. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The Utility Capital Projects Fund is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The Revenue Debt Service Fund is used to segregate resources accumulated for debt service payments over the next twelve months. The Revenue Bond Reserve Fund is used to report resources set aside to make up potential future deficiencies in the Revenue Debt Service Fund. The Revenue Bond Reserve Fund is required to reserve an amount not less than the average annual requirement for the payment of principal and interest on all the revenue bonds.

Also included in the restricted assets are capital recovery fees that are, by law, restricted to the projects these funds may be used to support. The Utility Development Impact Fee Fund is used to segregate these resources and to account for the use of these funds.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Customer deposits received for water and wastewater service are, by law, to be considered restricted assets. These activities are included in the Water and Wastewater Enterprise Fund.

The Utility Capital Projects Fund, Revenue Debt Service Fund, Revenue Bond Reserve Fund, and Utility Development Impact Fee Funds are included in the Water and Wastewater column on the proprietary funds statements.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For fiscal year 2012, no interest costs were capitalized in the Water and Wastewater Enterprise Fund.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings/Structures	10 to 50
Land Improvements	20
Water and Sewer System	50
Machinery and Equipment	3 to 15
Motor Vehicles	2 to 10
Traffic Signals	10 to 15
Parks	20
Storm Sewer	50
Streets	20

J. Compensated Absences

Vacation is earned in varying amounts up to a maximum of 200 hours per year for employees and 300 hours for fire shift personnel with 20 years or more of service. Unused vacation may be carried forward from one year to the next and is limited to 300 hours for employees and 450 hours for fire shift personnel. Sick leave is accrued by employees at a rate of 11.37 hours per month and by fire shift personnel at a rate of 15.4 hours per month. Compensation for accrued sick leave is paid upon separation up to a maximum of 160 hours for employees and 240 hours for fire shift personnel, both with 5 years of consecutive service. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

K. Long-term Obligations

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

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Gain or losses on refunding are amortized straight line over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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.

L. Fund Equity

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe the constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance represents fund balance that is (a) not in a spendable form such as prepaid items or (b) legally or contractually required to be maintained intact such as an endowment.

Restricted fund balance consists of amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources as approved by the City Council or by their designated body or official.

Committed fund balances are self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined and approved by formal action of the City Council, which is the highest level of decision making authority for the city. The same level of formal action is required to remove the constraint.

Assigned fund balance consists of amounts that are subject to a purpose constraint that represents an intended use established by the City Council or by their designated body or official.

Unassigned fund balance represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. The City will maintain a minimum fund balance reserve equal to three months of the total operating expenses of the General Fund. All fund balances are formally approved on an annual basis by the City Council.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

(2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. Each department submits to the City Manager a budget of estimated expenditures for the ensuing fiscal year no later than August 1. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and after the first Monday in September.

Prior to October 1, the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

Budgeted amounts are as originally adopted, or as legally amended. The City Council may amend the budget by passing a budget appropriation ordinance. During fiscal year 2012, the total amendments to the original adopted budgeted amounts resulted in a \$176,870 increase in budgeted General Fund expenditures.

Budgets for the General Fund and Debt Service Fund are legally adopted on a basis consistent with GAAP. The majority of the City's Special Revenue Funds and Capital Projects Funds are budgeted on an annual basis. For budgeted Capital Projects not expended during the fiscal year the City will roll those balances into the following year's budget.

Departmental appropriations that have not been expended or encumbered by the departments at the end of the fiscal year will lapse. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. The commitments (purchase orders, contracts and other commitments for the expenditure of funds) are not treated as expenditures until a liability for payment is incurred, but are merely used to facilitate effective budget control and cash planning and management.

B. Excess of Expenditures over Appropriations

During the current year the City did not report any funds whose expenditures were in excess of the appropriations.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

(3) DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 114,640,934
Investments	29,572,733
Restricted cash and cash equivalents	39,818,935
Restricted investments	<u>13,439,303</u>
Total cash and investments	<u>\$ 197,471,905</u>
Cash on hand	\$ 9,399
Deposits with financial institution excluding certificates of deposit	32,594,708
Investments	<u>164,867,798</u>
Total cash and investments	<u>\$ 197,471,905</u>

The table below identifies the investment types that are authorized for the City by the Public Funds Investment Act. (Government Code Chapter 2256) The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	80%	None
U.S. Agencies Securities	5 years	80%	None
Certificates of Deposits	3 years	20%	None
Repurchase agreements	6 months	80%	None
Commercial paper	270 days	20%	None
No-load money market mutual funds	90 days	20%	None
Investment pools	365 days (WAM)	None	None
State and Local Government Agency Securities	3 years	80%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates. The City investment policy is designed to manage its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City policy has a weighted average maturity limit of 730 days.

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

Investment Type	Amount	Weighted Average Maturity
Certificates of Deposit	\$ 17,186,157	306 days
TexPool	35,964,272	41 days
TexPool Prime	19,527,427	32 days
LOGIC	17,796,081	50 days
Texas Daily	10,211,824	54 days
Texas CLASS	38,356,159	39 days
Federal Agency Securities	21,266,700	981 days
Municipal Securities	4,559,178	1055 days
	\$ 164,867,798	

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End
Certificates of Deposit	\$ 17,186,157	AAA/AAA-m	AAA-m
TexPool	35,964,272	AAA/AAA-m	AAA-m
TexPool Prime	19,527,427	AAA/AAA-m	AAA-m
LOGIC	17,796,081	AAA/AAA-m	AAA-m
Texas Daily	10,211,824	AAA/AAA-m	AAA-m
Texas CLASS	38,356,159	AAA/AAA-m	AAA-m
Federal Agency Securities	21,266,700	AAA	AAA
Municipal Securities	4,559,178	AA	AA
	\$ 164,867,798		

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Concentration of credit risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2012, investments other than external investment pools that represent 5% or more of the City's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FNMA	Federal agency securities	\$ 17,248,100

Custodial credit risk

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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2012 the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

The City is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The City invested in the Texas Local Government Investment Cooperative (LOGIC) Liquid Asset Portfolio. LOGIC is a public funds investment pool managed by Southwest Securities Group, Inc. LOGIC investments are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the City is not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. LOGIC operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the value of LOGIC shares. In accordance with GASB Statement No. 31, the City's general policy is to report short-term treasury securities, U.S. government backed securities which have a remaining term of one year or less at time of purchase, and money market mutual funds at amortized costs.

**CITY OF MCKINNEY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2012**

The City is invested in Texas Daily, a portfolio of the TexasTERM Local Government Investment Pool ("Pool") which was created by Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. The Pool is directed by an Advisory Board of experienced local government finance directors and treasurers. The Advisory Board contracts for services with professional service providers who are industry leaders in their field.

The City is invested in Texas Cooperative Liquid Assets Securities System (Texas CLASS) Trust. Texas CLASS was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code, or other laws of the State of Texas governing the investment of funds of a participant or funds under its control. Texas CLASS is administered by Cutwater Investor Services Corp. with Wells Fargo Bank Texas, NA as the Custodian. Texas CLASS is supervised by a Board of Trustees who are elected by the Participants.

B. PROPERTY TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31st. Current tax collections for the year ended September 30, 2012, were 99.42% of the adjusted tax levy.

Allocations of property tax levy by purpose for 2012 and the preceding year are as follows (amounts per \$100 assessed value):

	<u>2012</u>	<u>2011</u>
General Fund	\$ 0.40506	\$ 0.40650
Debt Service	0.18044	0.17900
	<u>\$ 0.58550</u>	<u>\$ 0.58550</u>

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios.

The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City operates under a Home Rule Charter which also imposes a limit of \$2.50, but does not prescribe a legal debt limit. The 2012 ad valorem tax rate of \$0.58550 is in compliance with the rate limitation.

C. RECEIVABLES

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

Governmental Funds	General	Debt Service	Street Construction	Non-Major Governmental Funds	Total
Receivables					
Interest	\$ 98,845	\$ -	\$ 17,280	\$ -	\$ 116,125
Taxes	7,207,926	427,039	-	111,390	7,746,355
Accounts	5,761,029	-	-	6,230	5,767,259
Other	-	-	-	86,666	86,666
Gross receivables	13,067,800	427,039	17,280	204,286	13,716,405
Less: allowance	(2,370,119)	-	-	-	(2,370,119)
Net total receivables	<u>\$ 10,697,681</u>	<u>\$ 427,039</u>	<u>\$ 17,280</u>	<u>\$ 204,286</u>	<u>\$ 11,346,286</u>

Business-Type Activities	Water Wastewater	Other Enterprise Funds	Total
Receivables			
Interest	\$ 122,431	\$ 1,988	\$ 124,419
Customer accounts	11,294,024	1,724,272	13,018,296
Other	-	260,817	260,817
Gross receivables	11,416,455	1,987,077	13,403,532
Less: allowance	(865,959)	(141,553)	(1,007,512)
Net total receivables	<u>\$ 10,550,496</u>	<u>\$ 1,845,524</u>	<u>\$ 12,396,020</u>

The Enterprise Fund accounts receivable includes unbilled charges for services rendered at September 30, 2012. The water and wastewater fund also reported restricted interest receivable at year-end of \$122,431.

Notes receivable includes the balances of three notes from MEDC. In fiscal year 1999, MEDC agreed to pay the principal and interest on \$500,000 of City certificate of obligation funds. The \$500,000 was used for Airport infrastructure engineering and construction costs. The balance of this note as of September 30, 2012, is \$175,000 in the general fund.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

In February of 2009, MEDC negotiated a loan from the City. Proceeds were used to redeem their 2002 taxable revenue bonds achieving a savings of \$297,895 in interest expenses. A promissory note in the amount of \$7,070,000 was executed with the City. The Note is for five years with a 5% interest on outstanding balances. During 2010, the City Council authorized the transfer of \$1,177,500 of this note receivable to the Solid Waste Fund. As of September 30, 2012, the balance of this note is \$1,472,500 and \$1,177,500 in the general fund and solid waste fund, respectively.

Also in February of 2009, MEDC negotiated another loan from the City to redeem their 2002 tax exempt revenue bonds achieving a savings of \$289,790 in interest expenses. A promissory note in the amount of \$4,000,000 was executed with the City. The note is for eight years with a 4% interest on outstanding balances. During 2012, the City Council authorized the transfer of this note to the solid waste fund. The balance of this note as of September 30, 2012, is \$4,000,000.

D. CAPITAL ASSETS

The governmental activities' beginning construction in progress was restated in 2012. The restatement adjusted construction in progress to remove infrastructure that was going to be maintained by another entity. For more information about the restatement, refer to Note 16.

Capital asset activity for the year ended September 30, 2012 was as follows:

Primary Government

	Beginning Balance	Adjustments	Beginning Balance as Restated	Increases	Decreases	Transfers	Ending Balance
Governmental activities:							
Capital assets not being depreciated:							
Land	\$ 13,723,786	\$ -	\$ 13,723,786	\$ 750,225	\$ (465,417)	\$ 5,734,953	\$ 19,743,547
Construction in progress	75,334,782	(7,578,461)	67,756,321	12,659,679	-	(41,244,026)	39,171,974
Total capital assets, not being depreciated	89,058,568	(7,578,461)	81,480,107	13,409,904	(465,417)	(35,509,073)	58,915,521
Capital assets being depreciated:							
Buildings	98,585,647	-	98,585,647	28,207	-	561,272	99,175,126
Infrastructure	524,023,923	-	524,023,923	8,700,582	-	34,947,801	567,672,306
Machinery & equipment	48,599,820	-	48,599,820	928,694	(611,970)	-	48,916,544
Total capital assets being depreciated	671,209,390	-	671,209,390	9,657,483	(611,970)	35,509,073	715,763,976
Less accumulated depreciation for:							
Buildings	(19,867,929)	-	(19,867,929)	(3,137,151)	11,286	-	(22,993,794)
Infrastructure	(223,024,086)	-	(223,024,086)	(23,432,544)	-	-	(246,456,630)
Machinery and equipment	(26,665,365)	-	(26,665,365)	(3,703,092)	574,464	-	(29,793,993)
Total accumulated depreciation	(269,557,380)	-	(269,557,380)	(30,272,787)	585,750	-	(299,244,417)
Total capital assets being depreciated, net	401,652,010	-	401,652,010	(20,615,304)	(26,220)	35,509,073	416,519,559
Governmental activities capital assets, net	\$ 490,710,578	\$ (7,578,461)	\$ 483,132,117	\$ (7,205,400)	\$ (491,637)	\$ -	\$ 475,435,080

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 6,524,909	\$ 120,946	\$ -	\$ 242,279	\$ 6,888,134
Construction in progress	43,313,334	6,703,135	-	(26,077,431)	23,939,038
Total capital assets, not being depreciated	49,838,243	6,824,081	-	(25,835,152)	30,827,172
Capital assets being depreciated:					
Buildings	13,727,119	-	-	-	13,727,119
Infrastructure	279,172,192	5,403,948	-	25,835,152	310,411,292
Machinery & equipment	7,275,384	5,883	(15,421)	-	7,265,846
Total capital assets being depreciated	300,174,695	5,409,831	(15,421)	25,835,152	331,404,257
Less accumulated depreciation for:					
Buildings	(4,097,698)	(328,627)	-	-	(4,426,325)
Infrastructure	(54,947,317)	(6,036,980)	-	-	(60,984,297)
Machinery and equipment	(3,629,227)	(518,450)	15,421	-	(4,132,256)
Total accumulated depreciation	(62,674,242)	(6,884,057)	15,421	-	(69,542,878)
Total capital assets being depreciated, net	237,500,453	(1,474,226)	-	25,835,152	261,861,379
Business-type activities capital assets, net	\$ 287,338,696	\$ 5,349,855	\$ -	\$ -	\$ 292,688,551

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

Governmental Activities:	
General government	\$ 2,344,256
Police	787,522
Fire	1,670,988
Libraries	400,251
Development	252,084
Parks and recreation	2,628,757
Public works	22,188,929
Total depreciation expense governmental activities	<u>\$ 30,272,787</u>
Business-type activities:	
Water and Wastewater	\$ 6,630,461
Solid Waste	61,149
Surface Water Drainage	1,842
Golf Course	190,605
Total depreciation expense business-type activities	<u>\$ 6,884,057</u>

Capital Improvement Program commitments

The City has active construction projects as of September 30, 2012. The projects include Governmental type activities such as: streets, parks, fire, facilities, library, and stormwater construction. The commitment for Governmental is being financed by general obligation bonds, certificate of obligation bonds, impact fees and developer contributions. The Water and Wastewater, and Airport are being financed by revenue bonds, certificate of obligation bonds, impact fees and developer contributions. The remaining commitment was expenditures not spent.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Commitments for construction in progress are composed of the following:

	Project Budget Appropriation	Spent-to-date	Remaining Commitment
Governmental	\$ 148,816,176	\$ 39,171,974	\$ 109,644,202
Water and Wastewater	71,515,367	23,939,038	47,576,329
Airport	52,783,025	39,560,672	13,222,353
Total	<u>\$ 273,114,568</u>	<u>\$ 102,671,684</u>	<u>\$ 170,442,884</u>

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivables and payables balances at September 30, 2012, is as follows:

Receivable Fund	Payable Fund	Amount	Primary Purpose
General Fund	Water/Wastewater Fund	\$ 145,794	Franchise fees
Water/Wastewater Fund	Solid Waste	10,907	Sanitation accrual
General Fund	Solid Waste	24,165	Sanitation accrual
General Fund	Non-Major Governmental Funds	160,000	To cover cash shortage
	Total	<u>\$ 340,866</u>	

Transfers between funds during the year were as follows:

Transfer Out	Transfer In	Amount
General Fund	Non-Major Governmental Funds	\$ 1,665,449
Golf Fund	General Fund	5,000
Surface Water Drainage	General Fund	63,881
Surface Water Drainage	Non-Major Governmental Funds	1,200
Water/Wastewater	General Fund	2,291,373
Water/Wastewater	Non-Major Governmental Funds	47,770
Solid Waste	General Fund	384,812
Solid Waste	Non-Major Governmental Funds	4,266
Non Major Funds	General Fund	41,630
Non-Major Governmental Funds	Non-Major Governmental Funds	600
		<u>\$ 4,505,981</u>

Transfers are used to: 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowing to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grants program, and 4) move restricted impact fees to fund capital improvement program.

A transfer of \$763,293 was made from the general fund to the equipment replacement fund to replace computers.

Transfers of \$2,745,066 were made from the enterprise funds to the general fund in order to support monthly general and administrative fees which are expected to be paid from governmental activities.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

Note Receivable

In January 2010, City Council approved a loan from the solid waste fund to the golf course fund. The loan was issued in the amount of \$800,000. In March 2011, City Council approved an increase to the existing loan of \$261,000. The balance of the note as of September 30, 2012 is \$970,753. Under the loan agreement, the golf course fund will make interest payments annually at a rate of 1.75% through 2030.

F. DEFERRED/UNEARNED REVENUE

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Tax, court, EMS, franchise fees and miscellaneous revenues which are reported as deferred revenue in the governmental funds are recorded as revenue in the government-wide financial statements.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Deferred Revenue	Unearned Revenue
Tax revenue	\$ 953,432	\$ 412,349	\$ -	\$ 1,365,781	\$ -
Court revenue	2,193,969	-	-	2,193,969	-
EMS revenue	808,691	-	-	808,691	-
Franchise fees	965,554	-	-	965,554	-
Grant revenue	-	-	30,053	30,053	-
Miscellaneous	82,665	-	-	82,665	82,665
	<u>\$ 5,004,311</u>	<u>\$ 412,349</u>	<u>\$ 30,053</u>	<u>\$ 5,446,713</u>	<u>\$ 82,665</u>

G. LONG-TERM DEBT

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 145,415,000	\$ 14,670,000	\$ (19,400,000)	\$ 140,685,000	\$ 8,145,000
Certificate of obligation	72,310,000	-	(7,320,000)	64,990,000	2,380,000
	<u>217,725,000</u>	<u>14,670,000</u>	<u>(26,720,000)</u>	<u>205,675,000</u>	<u>10,525,000</u>
Add deferred amounts:					
For issuance premium	442,782	2,127,248	(204,107)	2,365,922	-
For advance refunding	(346,726)	-	78,405	(268,320)	-
Total bonds payable	<u>217,821,056</u>	<u>16,797,248</u>	<u>(26,845,702)</u>	<u>207,772,602</u>	<u>10,525,000</u>
OPEB liability	428,589	411,782	(259,762)	580,609	-
Compensated absences	4,406,856	2,603,423	(561,279)	6,449,000	1,139,538
Governmental activity long-term debt	<u>\$ 222,656,501</u>	<u>\$ 19,812,453</u>	<u>\$ (27,666,743)</u>	<u>\$ 214,802,211</u>	<u>\$ 11,664,538</u>
Business-type activities:					
Bonds payable:					
Water and Wastewater					
Revenue bonds	\$ 78,635,000	\$ 5,170,000	\$ (9,765,000)	\$ 74,040,000	\$ 4,455,000
	<u>78,635,000</u>	<u>5,170,000</u>	<u>(9,765,000)</u>	<u>74,040,000</u>	<u>4,455,000</u>
Add deferred amounts:					
For issuance premium	100,791	364,669	(40,930)	424,530	-
For advance refunding	(244,628)	-	43,814	(200,814)	-
Total bonds payable	<u>78,491,163</u>	<u>5,534,669</u>	<u>(9,762,116)</u>	<u>74,263,716</u>	<u>4,455,000</u>
Arbitrage	197,539	-	(197,539)	-	-
Compensated absences	343,323	227,216	(42,943)	527,596	93,227
Business-type activity long-term debt	<u>\$ 79,032,025</u>	<u>\$ 5,761,885</u>	<u>\$ (10,002,598)</u>	<u>\$ 74,791,312</u>	<u>\$ 4,548,227</u>

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Compensated Absences

Compensated absences represent the estimated liability for employees' accrued holiday, portion of sick leave, compensatory time and vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is typically paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

General Obligation Bonds and Certificates of Obligation

The general obligation bonds include \$205,675,000 of serial bonds and certificates of obligation with interest rates ranging from 3.00% to 5.50% maturing annually in varying amounts through 2030. Interest for these bonds is payable semi-annually. They are backed by the full faith and credit of the City and are payable from property taxes.

In April 2012, the City issued \$14,670,000 of Series 2012, General Obligation Refunding Bonds. The debt was issued to refund a portion of the City's outstanding debt to achieve a present value debt service savings. Net proceeds from the sale of the bonds totaled \$16,945,693. Of these proceeds, \$16,685,444 was placed with an escrow agent to provide for all future debt payments of the refunded bonds.

This refunding resulted in a decrease in the City's debt service payments of \$2,475,557, which resulted in an economic gain (difference between the present value of the debt service payments of the old debt and new debt) of \$2,219,941.

Debt service requirements of the general obligation bonds and certificates of obligation for the years subsequent to September 30, 2012 are as follows:

Fiscal Year	General Obligation Bonds			Certificates of Obligation			Total GO and CO Requirements
	Principal Requirements	Interest Requirements	Total Requirements	Principal Requirements	Interest Requirements	Total Requirements	
2013	\$ 8,145,000	\$ 6,193,301	\$ 14,338,301	\$ 2,380,000	\$ 2,857,350	\$ 5,237,350	\$ 19,575,651
2014	8,320,000	5,868,334	14,188,334	2,520,000	2,756,888	5,276,888	19,465,222
2015	8,290,000	5,536,790	13,826,790	2,875,000	2,663,113	5,538,113	19,364,903
2016	7,445,000	5,157,665	12,602,665	4,110,000	2,551,838	6,661,838	19,264,503
2017	8,310,000	4,825,040	13,135,040	3,755,000	2,386,060	6,141,060	19,276,100
2018-2022	50,585,000	18,150,340	68,735,340	16,950,000	9,648,321	26,598,321	95,333,661
2023-2027	39,940,000	7,029,693	46,969,693	22,650,000	5,168,786	27,818,786	74,788,479
2028-2030	9,650,000	755,863	10,405,863	9,750,000	785,944	10,535,944	20,941,807
	<u>\$140,685,000</u>	<u>\$ 53,517,026</u>	<u>\$ 194,202,026</u>	<u>\$ 64,990,000</u>	<u>\$ 28,818,300</u>	<u>\$ 93,808,300</u>	<u>\$ 288,010,326</u>

The City Charter does not prescribe a debt limit.

Proceeds of General Obligation Bonds are recorded in the Capital Projects Fund and are restricted to the use for which they were approved in the bond elections. The City Charter expressly prohibits the use of bond proceeds to fund operating expenditures.

Revenue Bonds

The revenue bonds are serial obligations with interest rates ranging from 3.00% to 5.50%, maturing annually in varying amounts through years 2030 and interest is payable semi-annually.

The revenue bonds are payable from the net revenues of the Water and Wastewater Fund. Gross revenues are to be used first to pay operating and maintenance expenses of the system, and second to maintain revenue bond funds in accordance with the bond covenants. The City is in compliance with the revenue bond debt covenants as of September 30, 2012. Remaining revenues may then be used for any lawful purpose.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

In April 2012, the City also issued \$5,170,000 of Series 2012, Waterworks and Sewer System Revenue Refunding Bonds. The debt was issued to refund a portion of the City's outstanding debt to achieve a present value debt service savings.

Net proceeds from the sale of the bonds, plus a \$36,826 contribution from prior issue debt service funds, totaled \$5,621,800. Of these proceeds, \$5,501,656 was placed with an escrow agent to provide for all future debt payments of the refunded bonds.

This refunding resulted in a decrease in the City's debt service payments of \$707,390, which resulted in an economic gain (difference between the present value of the debt service payments of the old debt and new debt) of \$624,159.

Debt service requirements of the water and wastewater revenue bonds for the years subsequent to September 30, 2012, are as follows:

Fiscal Year	Revenue Bonds		
	Principal Requirements	Interest Requirements	Total Requirements
2013	\$ 4,455,000	\$ 3,116,316	\$ 7,571,316
2014	4,505,000	2,936,035	7,441,035
2015	4,605,000	2,753,682	7,358,682
2016	4,715,000	2,564,179	7,279,179
2017	4,780,000	2,368,283	7,148,283
2018-2022	25,140,000	8,643,194	33,783,194
2023-2027	22,075,000	2,989,312	25,064,312
2028-2030	3,765,000	175,331	3,940,331
	<u>\$ 74,040,000</u>	<u>\$ 25,546,332</u>	<u>\$ 99,586,332</u>

H. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

Purpose	Cash and Investments	Accrued Interest Receivable	Total
Water and Wastewater Funds:			
Operating Fund (includes			
customer deposits	\$ 2,083,402	\$ -	\$ 2,083,402
Utility Capital Projects Fund	27,458,899	122,431	27,581,330
Utility Development Impact Fee	5,025,467	-	5,025,467
Revenue Debt Service Fund	13,355,869	-	13,355,869
Revenue Bond Reserve Fund	5,324,601	-	5,324,601
Golf Course Fund (includes			
customer deposits)	10,000	-	10,000
	<u>\$ 53,258,238</u>	<u>\$ 122,431</u>	<u>\$ 53,380,669</u>

The ordinance authorizing the water and wastewater system revenue bonds requires that the City establish a fund, Revenue Bond Reserve Fund, to reserve an amount not less than the average annual requirement for the payment principal and interest on all the revenue bonds. At September 30, 2012, net assets are sufficient to satisfy such bond ordinance requirements.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

The ordinance further requires that the proceeds from the sale of revenue bonds be expended for certain capital improvements to the water and wastewater system. The proceeds are maintained as Restricted Assets – Utility Capital Projects Fund until such time as needed to fund the water and wastewater system construction program.

(4) DEFERRED COMPENSATION PLAN

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is administered by the International City Management Association Retirement Corporation (ICMARC) and the other is administered by Nationwide. All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries, therefore it is not reported in the financial statements of the City. Assets and liabilities are not included in the City's basic financial statements.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

(5) PENSION PLAN

A. 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), one of 847 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 847 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2011, valuations are contained in the 2011 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P.O. Box 149153, Austin, Texas 78714-9153.

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

Members can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of December 2011)

Employee Deposit Rate:	7.0%
Matching Ratio (City to employee):	2:1
A member is vested after	5 years

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B. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The unit credit actuarial cost method is used for determining the City contribution 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. (i.e. December 31, 2011 valuation is effective for the rates beginning January 2013)

C. Annual Pension Cost

Contributions by the City were \$6,412,123 or 13.63% of the covered payroll of \$47,038,488 as required by the actuarial valuation. The total fiscal year 2012 payroll was \$48,308,123.

Annual City pension cost and related information for the last three years is as follows:

	FY2011-12	FY2010-11	FY2009-10
<u>Actuarial Information</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level %	Level %	Level %
Amortization period	26.2 years-closed period	27.2 years-closed period	28 years-closed period
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Assumptions			
Investment return	7%	7%	7.5%
projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
cost-of-living adjustment	2.1%	2.1%	2.1%
City specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female (low, mid/low, mid, mid/high or high)	Mid-Low/Mid	Mid-Low/Mid	Mid-Low/Mid
<u>Schedule of Funding Information</u>	<u>FY2011-12</u>	<u>FY2010-11</u>	<u>FY2009-10</u>
Actuarial valuation date	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial Value of Assets	\$ 119,057,419	\$ 105,262,299	\$ 77,363,412
Actuarial Accrued Liability	\$ 156,549,456	\$ 145,078,402	\$ 116,653,084
Unfunded (Over-funded) Actuarial			
Accrued Liability (UAAL)	\$ 37,492,037	\$ 39,816,103	\$ 39,289,672
Funded ratio	76.1%	72.6%	66.3%
Annual Covered Payroll	\$ 47,490,291	\$ 48,533,150	\$ 48,030,872
UAAL as a Percentage of Covered Payroll	78.9%	82.0%	81.8%

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The City's net pension obligation (NPO) for TMRS at December 31, 2012, 2011, and 2010 is calculated as follows:

	FY2011-12	FY2010-11	FY2009-10
	12/31/11	12/31/2010	12/31/2009
Actuarial valuation date:			
NPO, beginning of the year	\$ -	\$ -	\$ -
Annual pension cost:			
Annual required contribution (ARC)	6,412,123	6,331,111	5,695,719
Contributions Made	(6,412,123)	(6,331,111)	(5,695,719)
NPO , end of the year	\$ -	\$ -	\$ -

Supplemental death benefit fund

The City contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. 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.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined annually, and the rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net assets available for postemployment benefits other than pension benefits (OPEB). The City's contributions to SDBF for the fiscal years ended September 30, 2012, 2011, and 2010, were \$61,011, \$78,394, and \$77,560, respectively, which equaled the required contributions each year.

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary. The death benefit for retirees is considered an OPEB and is fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the Pension Trust Fund.

(6) OTHER POST EMPLOYMENT BENEFITS

A. Plan Description

The City provides post-employment medical and dental benefits (OPEB) for eligible retirees, their spouses and dependents through a single-employer defined benefit plan, which covers both active and retired members.

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All medical care benefits are provided through the City's self-insured health plan. The two optional benefit levels, CityCare PPO and CityCare Plus PPO, are the same for retirees as those afforded to active employees.

As of September 30, 2012, membership consisted of:

Retirees and beneficiaries receiving benefits	16
Terminated employees eligible for benefits, but not yet enrolled	-
Active employees	<u>758</u>
Total	<u><u>774</u></u>

B. Benefits Provided

To be eligible for coverage a retiree must qualify under all three of the following:

1. Has been covered as an employee for medical benefits under the City of McKinney Employee Healthcare Plan immediately prior to retirement; and
2. Applies for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than thirty-one (31) days from his/her termination of employment; and
3. Enrolls for Retiree health coverage within thirty-one (31) days of the date employee coverage ends;

Retirees who elect COBRA cannot later elect retiree coverage. Retirees are not allowed to add additional dependents upon retirement. Retirees age sixty-five (65) and older are not eligible to remain on the Plan.

C. Accounting Policies

An irrevocable trust has not been established; therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

D. Funding Policy

The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual retiree contributions are equal to the benefits that are paid on behalf of the retirees.

The monthly Retiree health coverage contribution rates for offered benefit levels are as follows:

<u>CITYCARE PPO</u>		<u>CITYCARE PLUS PPO</u>	
Single Coverage	\$ 503	Single Coverage	\$ 558
Single + Spouse	\$ 850	Single + Spouse	\$ 1,020
Single + Children	\$ 750	Single + Children	\$ 892
Single + Family	\$ 1,070	Single + Family	\$ 1,275

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E. Annual OPEB Cost

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2012:

	2012	2011	2010
Annual required contribution	\$ 411,782	\$ 411,782	\$ 152,411
Interest on prior year Net OPEB obligation	19,287	8,419	2,853
Adjustment to annual required contribution	<u>(19,287)</u>	<u>(8,419)</u>	<u>(2,853)</u>
Annual OPEB cost	411,782	411,782	152,411
Contributions made	<u>259,762</u>	<u>170,276</u>	<u>28,736</u>
Increase in net OPEB obligation	152,020	241,506	123,675
Net Obligation - beginning of year	<u>428,589</u>	<u>187,083</u>	<u>63,408</u>
Net Obligation - end of year	<u>\$ 580,609</u>	<u>\$ 428,589</u>	<u>\$ 187,083</u>
Percentage of OPEB costs contributed	63.08%	41.35%	18.85%

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2011 was as follows:

Actuarial accrued liability	\$ 3,102,107
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 3,102,107</u>
Funded ratio	0.0%
Covered payroll	47,490,291
Unfunded actuarial accrued liability as a percentage of covered payroll	6.53%

Although not considered contributions under GASB 45, the City has assigned \$1,692,681 of fund balance in the General Fund for funding of the OPEB liability.

F. Actuarial Methods and Assumptions

Projections of benefits are based on substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. The actuarial methods and assumptions use include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. The rate of inflation is assumed to be 3%.

**CITY OF MCKINNEY, TEXAS
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(7) WATER PURCHASE, WASTEWATER AND SOLID WASTE DISPOSAL CONTRACTS

The City has a contract with the North Texas Municipal Water District (NTMWD) to purchase substantially all of its water. Under the contract, the City pays NTMWD a rate based on water usage. The rates charged are subject to minimum annual contract payments. Contract payments for water for the year ended September 30, 2012, were \$14,667,366.

The City has a contract with NTMWD whereby NTMWD agreed to provide a wastewater treatment and disposal system for the benefit of the City and any "additional member city," as defined. Each member city pays an "annual payment," as defined, as its share of operating expenses and debt service of NTMWD. The City's annual payment for the year ended September 30, 2012, was \$11,091,772.

The City has a contract with NTMWD whereby NTMWD agreed to dispose of solid waste for the City and any "additional member City," as defined. Each member city pays an "annual payment," as defined, as its share of operating expenses and debt service of NTMWD. The City's annual payment for the year ended September 30, 2012, was \$4,818,298.

(8) LITIGATION

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the City's operations or financial position.

(9) CONTINGENT LIABILITIES

The City participates in a number of Federal and State funded grant programs. These programs are subject to program compliance audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

NTMWD issued \$1,700,000 in revenue bonds in 1995 to be used for the acquisition and construction of facilities to provide wastewater transportation services for the City. The City of McKinney has guaranteed the payment of the bond principal and interest and certain related administrative costs. The outstanding principal of the revenue bonds as of September 30, 2012, is \$400,000. The City made monthly operating payments to NTMWD totaling \$151,971 in fiscal year 2012.

(10) INSURANCE AND RISK MANAGEMENT

The City's General Fund accounts for health care claims, workers' compensation claims, property, and general liability claims.

The City provides health care benefits to City employees under a partially self-insured plan (the "Plan"). Under the Plan, the City and the employees pay a predetermined monthly premium, which is based on the projected claims cost for the Plan and the extent of medical coverage selected by the employee. The monthly premiums are deposited into the General Fund and are used to pay claims as they are submitted. The City's liability is limited by an excess ("stop loss") insurance policy covering individual claims in excess of \$125,000. The City utilizes the Group & Pension Administrators ("GPA") as a third party administrator to adjudicate and pay medical claims on behalf of the City. Throughout the policy year, the "stop loss" insurance carrier reimburses the City for claims paid during the policy year which exceeded the "stop loss" deductible amount.

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For the year ended September 30, 2012, the City and the City's employees' contributions paid under the Plan were \$8,486,969 and \$1,878,994 respectively.

The City participates in the Texas Municipal League Intergovernmental Risk Pool ("TMLIRP") for workers' compensation claims, liability (general, automobile, law enforcement, and errors/omissions), and property insurance. The General Fund allocates costs to each department in order to pay deductibles and workers' compensation premium costs (TMLIRP contributions). This cost is based on the pool's claims cost, which is adjusted to reflect the City's individual claims experience.

The City has a workers' compensation deductible of \$100,000 per accident, with an annual aggregate retention of \$450,000. During 2012 the City contributed \$106,561 for workers' compensation coverage.

The City maintains a deductible of \$25,000 per occurrence for property, and \$50,000 for all liability coverages. All insured claims are paid by TMLIRP, with the City reimbursing TMLIRP for the deductible. During 2012, the City contributed \$340,906 for property and general liability coverage.

The liabilities for insurance claims reported are based on GASB No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an estimate for incurred but not reported claims.

The changes in the Insurance and Risk Management liability amount in fiscal 2012 and 2011 were:

	Liability Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments and Changes in Estimates	Liability End of Year	Due Within One Year
2012:					
Health Claims	\$ 1,000,339	\$ 10,093,065	\$ (10,101,273)	\$ 992,131	\$ 992,131
Workers' Comp	283,573	317,624	(309,713)	291,484	291,484
Totals	<u>\$ 1,283,912</u>	<u>\$ 10,410,689</u>	<u>\$ (10,410,986)</u>	<u>\$ 1,283,615</u>	<u>\$ 1,283,615</u>
2011:					
Health Claims	\$ 1,312,366	\$ 11,159,060	\$ (11,471,087)	\$ 1,000,339	\$ 1,000,339
Workers' Comp	314,948	422,534	(453,909)	283,573	283,573
Totals	<u>\$ 1,627,314</u>	<u>\$ 11,581,594</u>	<u>\$ (11,924,996)</u>	<u>\$ 1,283,912</u>	<u>\$ 1,283,912</u>

There were no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last three years.

**CITY OF MCKINNEY, TEXAS
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(11) MCKINNEY ECONOMIC DEVELOPMENT CORPORATION

The MEDC is financed with a voter approved half-cent city sales tax, to aid, promote and further the economic development within the City. Under a contract between the MEDC and the City, the City provides financial services for the MEDC.

A. Deposits and investments

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 10,289,496
Investments	-
Restricted cash and cash equivalents	<u>1,586,109</u>
Total cash and investments	<u>\$ 11,875,605</u>
Cash on hand	\$ 200
Deposits with financial institution	1,785,375
Investments	<u>10,090,030</u>
Total cash and investments	<u>\$ 11,875,605</u>

The table below identifies the investment types that are authorized for MEDC by the Public Funds Investment Act (Government Code Chapter 2256). The table also identifies certain provisions of MEDC's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	80%	None
U.S. Agencies Securities	5 years	80%	None
Certificates of Deposits	3 years	20%	None
Repurchase agreements	6 months	80%	None
Commercial paper	270 days	20%	None
No-load money market mutual funds	90 days	20%	None
Investment pools	365 days (WAM)	None	None
State and Local Government Agency Securities	3 years	80%	None

The Act also requires MEDC to have independent auditors perform test procedures related to investment practices as provided by the Act. The MEDC is in substantial compliance with the requirements of the Act and with local policies.

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates. According to the City's investment policy MEDC manages its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk.

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MEDC monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
LOGIC	\$ 502,747	50 days
TexPool	1,001,951	41 days
Texas Daily	5,001,559	54 days
Texas CLASS	<u>3,583,773</u>	39 days
	<u>\$ 10,090,030</u>	

As of September 30, 2012 MEDC did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, MEDC's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
LOGIC	\$ 502,747	AAA/AAA-m	AAA-m
TexPool	1,001,951	AAA/AAA-m	AAA-m
Texas Daily	5,001,559	AAA/AAA-m	AAA-m
Texas CLASS	<u>3,583,773</u>	AAA/AAA-m	AAA-m
	<u>\$ 10,090,030</u>		

Custodial credit risk

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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the MEDC's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

**CITY OF MCKINNEY, TEXAS
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The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2012 MEDC deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

B. Receivables

At September 30, 2012, accounts and notes receivable on the Statement of Net Assets represents amounts owed to the MEDC for loans made to private businesses in the community. If certain contractual obligations are met by some of these private enterprises at a future date, a portion of the amounts owed may be forgiven. Due to the likelihood that the provisions would be met by the corporation's the City has elected to expense the advance at the time of transfer. The receivable balances as reported at September 30, 2012 are as follows:

	<u>Total</u>
Receivables	
Taxes	<u>\$ 1,752,571</u>
Gross receivables	1,752,571
Less: allowance	<u>-</u>
Net total receivables	<u>\$ 1,752,571</u>

C. CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component unit activities:				
Capital assets, not being depreciated:				
Land	\$ 23,327,476	\$ -	\$ -	\$ 23,327,476
Total capital assets, not being depreciated	<u>23,327,476</u>	<u>-</u>	<u>-</u>	<u>23,327,476</u>
Capital assets, being depreciated:				
Leasehold improvement	25,434	-	-	25,434
Improvements other than buildings	257,783	-	-	257,783
Machinery and equipment	29,795	-	-	29,795
Total capital assets being depreciated	<u>313,012</u>	<u>-</u>	<u>-</u>	<u>313,012</u>
Less accumulated depreciation for:				
Leasehold improvement	(19,376)	(2,020)	-	(21,396)
Improvements other than buildings	(168,632)	(12,889)	-	(181,521)
Machinery and equipment	(16,465)	(4,570)	-	(21,035)
Total accumulated depreciation	<u>(204,473)</u>	<u>(19,479)</u>	<u>-</u>	<u>(223,952)</u>
Total capital assets, being depreciated, net	<u>108,539</u>	<u>(19,479)</u>	<u>-</u>	<u>89,060</u>
Component unit activities capital assets, net	<u>\$ 23,436,015</u>	<u>\$ (19,479)</u>	<u>\$ -</u>	<u>\$ 23,416,536</u>

D. DEFERRED/UNEARNED REVENUE

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Receivables from developers are reported as deferred revenue in the governmental funds are recorded as revenue in the government-wide financial statements. At the end of the current fiscal year, the MEDC had \$0 of deferred revenue reported in the governmental funds.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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E. LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component unit activities:					
Bonds payable					
Sales tax revenue bonds	\$ 16,460,000	\$ -	\$ (900,000)	\$ 15,560,000	\$ 920,000
Note payable to primary government	8,095,000	-	(1,270,000)	6,825,000	1,360,000
Compensated absences	24,837	16,701	(19,137)	22,401	3,958
Component unit activities					
Long-term debt	<u>\$ 24,579,837</u>	<u>\$ 16,701</u>	<u>\$ (2,189,137)</u>	<u>\$ 22,407,401</u>	<u>\$ 2,283,958</u>

Bonds Payable consisted of the following as of September 30, 2012:

	Issue Date	Interest Rate	Maturity Date	Amount Outstanding
<u>Bonds Payable:</u>				
Sales Tax Revenue Bonds 2011	2/1/2011	2.5-5.6%	9/1/2025	\$ 9,095,000
Sales Tax Revenue Bonds, Taxable 2011	2/1/2011	2.5-5.6%	9/1/2025	<u>6,465,000</u>
Total bonds payable				<u>\$ 15,560,000</u>

Debt service requirements of the notes payable applicable to the Sales Tax Revenue 2011 and Sales Tax 2011, Taxable bonds for the years subsequent to September 30, 2012 are as:

Fiscal Year	Sales Tax Revenue 2011 Bonds			Sales Tax Revenue 2011 Taxable Bonds		
	Principal Requirements	Interest Requirements	Total	Principal Requirements	Interest Requirements	Total
2013	\$ 520,000	\$ 429,165	\$ 949,165	\$ 400,000	\$ 232,912	\$ 632,912
2014	535,000	408,365	943,365	410,000	222,912	632,912
2015	555,000	386,965	941,965	420,000	210,613	630,613
2016	575,000	364,765	939,765	435,000	198,013	633,013
2017	605,000	341,765	946,765	450,000	184,962	634,962
2018-2022	3,570,000	1,291,105	4,861,105	2,535,000	688,463	3,223,463
2023-2025	2,735,000	308,803	3,043,803	1,815,000	158,488	1,973,488
	<u>\$ 9,095,000</u>	<u>\$ 3,530,933</u>	<u>\$ 12,625,933</u>	<u>\$ 6,465,000</u>	<u>\$ 1,896,363</u>	<u>\$ 8,361,363</u>

F. NOTES PAYABLE TO PRIMARY GOVERNMENT AND OTHER ENTITIES

Notes Payable to Primary Government consisted of the following as of September 30, 2012:

Notes Payable (related to):	Amount Outstanding
Certificate of Obligation	\$ 175,000
Taxable 2002 Bonds	2,650,000
Tax Exempt 2002 Bonds	<u>4,000,000</u>
	<u>\$ 6,825,000</u>

In fiscal year 1999, MEDC agreed to pay the principal and interest on \$500,000 of City certificate of obligation funds. The \$500,000 was used for Airport infrastructure engineering and construction costs.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Debt service requirements of the notes payable for City certificate of obligation funds the years subsequent to September 30, 2012, are as:

<u>Fiscal Year</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total</u>
2013	\$ 75,000	\$ 8,169	\$ 83,169
2014	100,000	4,700	104,700
	<u>\$ 175,000</u>	<u>\$ 12,869</u>	<u>\$ 187,869</u>

In February of 2009, the MEDC negotiated a loan from the City of McKinney. Proceeds were used to redeem their 2002 Tax-Exempt and Taxable revenue bonds achieving a savings of \$587,685 in interest expenses. Two promissory notes, in the amount of \$4,000,000 for the Tax-Exempt 2002 bonds, and \$7,070,000 for the Taxable 2002 bonds, were executed on February 27, 2009.

In July of 2010, the City Council authorized the transfer of half of the MEDC's outstanding loans from the General Fund to the Solid Waste Fund. The transfer was in the amount of \$5,177,500. The transfer will not affect the loan agreement with MEDC.

Debt service requirements of the notes payable applicable to the Taxable 2002 bonds for the years subsequent to September 30, 2012 are as:

<u>Fiscal Year</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total</u>
2013	\$ 1,285,000	\$ 132,500	\$ 1,417,500
2014	1,365,000	68,250	1,433,250
	<u>\$ 2,650,000</u>	<u>\$ 200,750</u>	<u>\$ 2,850,750</u>

Debt service requirements of the notes payable applicable to the Tax Exempt 2002 bonds for the years subsequent to September 30, 2012 are as:

<u>Fiscal Year</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total</u>
2013	\$ -	\$ 160,000	\$ 160,000
2014	-	160,000	160,000
2015	1,270,000	160,000	1,430,000
2016	1,335,000	109,200	1,444,200
2017	1,395,000	55,800	1,450,800
	<u>\$ 4,000,000</u>	<u>\$ 645,000</u>	<u>\$ 4,645,000</u>

(12) MCKINNEY COMMUNITY DEVELOPMENT CORPORATION

In accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement 39, MCDC is a discretely presented component unit on the combined financial statements. In January 1996, the citizens of McKinney elected to adopt an additional half-cent sales tax in accordance with Sec. 4B Art. 5190.6 of Vernon's Texas Civil Statutes. This revenue source will be used to fund various public facilities and infrastructure including but not limited to parks, cultural and civic facilities, sports facilities, and historic preservation and tourism facilities. Under a contract between the MCDC and the City, the City provides financial services for the MCDC.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

A. DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 22,993,725
Investments	3,025,800
Total cash and investments	<u>\$ 26,019,525</u>
Cash on hand	\$ 200
Deposits with financial institution	2,718,640
Investments	23,300,685
Total cash and investments	<u>\$ 26,019,525</u>

The table below identifies the investment types that are authorized for MCDC by the Public Funds Investment Act (Government Code Chapter 2256). The table also identifies certain provisions of MCDC's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	80%	None
U.S. Agencies Securities	5 years	80%	None
Certificates of Deposits	3 years	20%	None
Repurchase agreements	6 months	80%	None
Commercial paper	270 days	20%	None
No-load money market mutual funds	90 days	20%	None
Investment pools	365 days (WAM)	None	None
State and Local Government Agency Securities	3 years	80%	None

The Act also requires MCDC to have independent auditors perform test procedures related to investment practices as provided by the Act. The MCDC is in substantial compliance with the requirements of the Act and with local policies.

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates.

According to the City's investment policy MCDC manages its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk. MCDC monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 7,119,653	41 days
LOGIC	630,694	50 days
Texas Daily	5,001,559	54 days
Texas CLASS	7,522,979	39 days
Federal Agency Securities	3,025,800	113 days
	<u>\$ 23,300,685</u>	

As of September 30, 2012 MCDC did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, MCDC's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexPool	\$ 7,119,653	AAA/AAA-m	AAA-m
LOGIC	630,694	AAA/AAA-m	AAA-m
Texas Daily	5,001,559	AAA/AAA-m	AAA-m
Texas CLASS	7,522,979	AAA/AAA-m	AAA-m
Federal Agency Securities	3,025,800	AAA	AAA
	<u>\$ 23,300,685</u>		

Concentration of credit risk

The investment policy of MCDC contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2012, investments other than external investment pools that represent 5% or more of MCDC's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FFCB	Federal agency securities	\$ 2,003,200

Custodial credit risk

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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

The Public Funds Investment Act and the MCDC's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2012 MCDC deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

B. RECEIVABLES

At September 30, 2012, accounts receivable include \$1,752,571 representing sales tax owed to MCDC and accrued interest of \$25,652. Receivables as of year-end for MCDC were collected after year end; therefore, no allowances for uncollectible accounts have been recorded for September 30, 2012.

C. CAPITAL ASSETS

The McKinney Community Development Corporation's beginning capital assets were restated in 2012. The restatement adjusted land and infrastructure to include assets deeded to the McKinney Community Development Corporation. For more information about the restatement, refer to Note 16.

	Beginning Balance	Adjustments	Beginning Balance as Restated	Increases	Decreases	Ending Balance
Component unit activities						
Capital Assets, not being depreciated:						
Land	\$ 532,529	\$ 4,436,222	\$ 4,968,751	\$ 1,311	\$ -	\$ 4,970,062
Total capital assets, not being depreciated	532,529	4,436,222	4,968,751	1,311	-	4,970,062
Capital assets, being depreciated:						
Infrastructure	-	2,616,342	2,616,342.0	206,765	-	2,823,107
Total capital assets, being depreciated	-	2,616,342	2,616,342	206,765	-	2,823,107
Less accumulated depreciation for:						
Infrastructure	-	-	-	(117,852)	-	(117,852)
Total accumulated depreciation	-	-	-	(117,852)	-	(117,852)
Total capital assets, being depreciated, net	-	2,616,342	2,616,342	88,913	-	2,705,255
Component unit activities, capital assets, net	\$ 532,529	\$ 7,052,564	\$ 7,585,093	\$ 90,224	\$ -	\$ 7,675,317

(13) COLLIN COUNTY AIRPORT DEVELOPMENT CORPORATION

In accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement 39, Collin County Airport Development Corporation (CCADC) is a discretely presented component unit on the combined financial statements. In March 2008, a resolution was passed forming the McKinney Airport Development Corporation, which name was changed in May 2012 to Collin County Airport Development Corporation. The purpose of the CCADC is to provide an economic engine for the entire region facilitating general and business aviation and related services. Under a contract with the CCADC, the City performs financial services for the CCADC.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

A. DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 752,813
Restricted cash and cash equivalents	1,824,784
Total cash and investments	<u>\$ 2,577,597</u>
Cash on hand	\$ 200
Deposits with financial institution	1,822,234
Investments	755,163
Total cash and investments	<u>\$ 2,577,597</u>

The table below identifies the investment types that are authorized for CCADC by the Public Funds Investment Act (Government code Chapter 2256). The table also identifies certain provisions of CCADC's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	80%	None
U.S. Agencies Securities	5 years	80%	None
Certificates of Deposits	3 years	20%	None
Repurchase agreements	6 months	80%	None
Commercial paper	270 days	20%	None
No-load money market mutual funds	90 days	20%	None
Investment pools	365 days (WAM)	None	None
State and Local Government Agency Securities	3 years	80%	None

The Act also requires CCADC to have independent auditors perform test procedures related to investment practices as provided by the Act. The CCADC is in substantial compliance with the requirements of the Act and with local policies.

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates. According to the City's investment policy CCADC manages its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk. CCADC monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 500,334	41 days
LOGIC	254,829	48 days
	<u>\$ 755,163</u>	

As of September 30, 2012 CCADC did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, CCADC's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
LOGIC	\$ 500,334	AAA/AAA-m	AAA-m
TexPool	254,829	AAA/AAA-m	AAA-m
	<u>\$ 755,163</u>		

Custodial credit risk

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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the CCADC's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2012 CCADC deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

B. RECEIVABLES

At September 30, 2012, accounts receivable include \$1,796 for services provided. Receivables as of year-end for CCADC were collected after year end; therefore, no allowances for uncollectible accounts have been recorded for September 30, 2012.

C. CAPITAL ASSETS

The Collin County Airport Development Corporation's beginning capital assets were restated in 2012. The restatement adjusted construction in progress to include assets purchased by the Texas Department of Transportation, acting as the agent on the project, on behalf of the Collin County Airport Development Corporation. For more information about the restatement, refer to Note 16.

	Beginning Balance	Adjustments	Beginning Balance as Restated	Increases	Decreases	Transfers	Ending Balance
Business-type activities:							
Capital assets not being depreciated:							
Land	\$ 13,851,019	\$ -	\$ 13,851,019	\$ -	\$ -	\$ -	\$ 13,851,019
Construction in progress	26,359,481	3,712,990	30,072,471	12,609,405	-	(3,121,204)	39,560,672
Total capital assets, not being depreciated	40,210,500	3,712,990	43,923,490	12,609,405	-	(3,121,204)	53,411,691
Capital assets being depreciated:							
Buildings	1,906,593	-	1,906,593	-	(124,393)	3,121,204	4,903,404
Infrastructure	26,554,732	-	26,554,732	75,951	-	-	26,630,683
Machinery & equipment	480,302	-	480,302	23,860	-	-	504,162
Total capital assets being depreciated	28,941,627	-	28,941,627	99,811	(124,393)	3,121,204	32,038,249
Less accumulated depreciation for:							
Buildings	(559,463)	-	(559,463)	(95,602)	55,277	-	(599,788)
Infrastructure	(9,875,471)	-	(9,875,471)	(1,099,266)	-	-	(10,974,737)
Machinery and equipment	(301,753)	-	(301,753)	(50,674)	-	-	(352,427)
Total accumulated depreciation	(10,736,687)	-	(10,736,687)	(1,245,542)	55,277	-	(11,926,952)
Total capital assets being depreciated, net	18,204,940	-	18,204,940	(1,145,731)	(69,116)	3,121,204	20,111,297
Business-type activities capital assets, net	\$ 58,415,440	\$ 3,712,990	\$ 62,128,430	\$ 11,463,674	\$ (69,116)	\$ -	\$ 73,522,988

(14) MCKINNEY CONVENTION & VISITORS BUREAU

In accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement 39, the McKinney Convention & Visitors Bureau (MCVB) is a discretely presented component unit on the combined financial statements. The purpose of the MCVB is to promote tourism and make McKinney a destination of choice. Under a contract with the MCVB, the City performs financial services for the MCVB.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

A. DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 318,177
Total cash and investments	<u>\$ 318,177</u>
Deposits with financial institution	\$ 318,177
Total cash and investments	<u>\$ 318,177</u>

The table below identifies the investment types that are authorized for MCVB by the Public Funds Investment Act (Government code Chapter 2256). The table also identifies certain provisions of MCVB's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	80%	None
U.S. Agencies Securities	5 years	80%	None
Certificates of Deposits	3 years	20%	None
Repurchase agreements	6 months	80%	None
Commercial paper	270 days	20%	None
No-load money market mutual funds	90 days	20%	None
Investment pools	365 days (WAM)	None	None
State and Local Government Agency Securities	3 years	80%	None

The Act also requires MCVB to have independent auditors perform test procedures related to investment practices as provided by the Act. The MCVB is in substantial compliance with the requirements of the Act and with local policies.

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates. According to the City's investment policy MCVB manages its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk. MCVB monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

As of September 30, 2012, MCVB had \$0 investments.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

Custodial credit risk

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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the MCVB's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2012 MCVB deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

(15) SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2012 up through March 1, 2013, the date the financial statements were issued.

(16) RESTATEMENT OF BEGINNING NET ASSETS

In 2012, the City restated the net assets of the governmental activities and discretely presented component units and restated the fund balances of the McKinney Convention and Visitor's Bureau (MCVB) and the Hotel/Motel Fund.

The governmental activities and the discretely presented component units' net assets in total have been restated on the government-wide financial statements as follows:

	Governmental Activities	Component Units
	<u> </u>	<u> </u>
Net assets, October 1, 2011, as previously presented	\$ 384,875,390	\$ 93,024,559
To correct capital asset balances	(7,578,461)	10,765,554
Adjustment of Hotel/Motel Fund presentation	<u>186,354</u>	<u>(186,354)</u>
Net assets, October 1, 2011, as restated	<u>\$ 377,483,283</u>	<u>\$ 103,603,759</u>

In previous fiscal years, infrastructure that was to be maintained by another entity was improperly recorded as capital assets by the City. The correction of these errors resulted in a \$7,578,461 decrease in beginning governmental activities net assets. In 2012, the Hotel/Motel Fund is presented as a Special Revenue Fund due to the fund's specific revenue sources that are externally restricted. The Hotel/Motel Fund had previously been presented in combination with the MCVB. As a result of the adjustment, governmental activities beginning net assets increased by \$186,354 and MCVB beginning net assets decreased by \$186,354.

**CITY OF MCKINNEY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

These reclassifications affected beginning fund balances in the fund financial statements as follows:

	<u>Hotel/Motel</u>	<u>McKinney Convention & Visitors Bureau</u>
Fund balances, October 1, 2011, as previously presented	\$ -	\$ 486,172
Adjustment of Hotel/Motel Fund presentation	<u>186,354</u>	<u>(186,354)</u>
Fund balances, October 1, 2011, as restated	<u>\$ 186,354</u>	<u>\$ 299,818</u>

As a result of a lawsuit settlement in 2011, McKinney Community Development Corporation (MCDC) was deeded land and land improvements. These assets were not included in capital assets as of September 30, 2011. The correction of these errors resulted in a \$7,052,564 increase in beginning discretely presented component units' net assets. MCDC's net asset balance has been restated as follows:

	<u>McKinney Community Dev. Corporation</u>
Net assets, October 1, 2011, as previously presented	\$ 23,572,276
To correct capital asset balances	<u>7,052,564</u>
Net assets, October 1, 2011, as restated	<u>\$ 30,624,840</u>

The Texas Department of Transportation acts as an agent on behalf of the Collin County Airport Development Corporation (CCADC) on all Airport Improvement Program funded projects. As a result of prior year capital asset purchases by the Texas Department of Transportation not being captured, construction in progress was understated as of September 30, 2011. The correction of these errors resulted in a \$3,712,990 increase in beginning discretely presented component unit's net assets. CCADC's net asset balance has been restated as follows:

	<u>Collin County Airport Dev. Corporation</u>
Net assets, October 1, 2011, as previously presented	\$ 60,744,920
To correct capital asset balances	<u>3,712,990</u>
Net assets, October 1, 2011, as restated	<u>\$ 64,457,910</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**



**CITY OF MCKINNEY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS
(UNAUDITED)**

Fiscal Year *	(1) Actuarial Value ** Of Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
2003	\$ 31,088,506	\$ 40,611,343	76.6%	\$ 9,522,837	\$ 22,094,033	43.1%
2004	36,507,673	49,191,302	74.2%	12,683,629	24,521,936	51.7%
2005	40,571,864	52,013,606	78.0%	11,441,742	27,581,781	41.5%
2006	46,461,949	59,291,581	78.4%	12,829,632	30,018,370	42.7%
2007	52,581,114	67,858,166	77.5%	15,277,052	37,270,216	41.0%
2008	60,301,582	94,242,619	64.0%	33,941,037	42,109,757	80.6%
2009	66,901,198	104,411,186	64.1%	37,509,988	47,208,569	79.5%
2010	77,363,412	116,653,084	66.3%	39,289,672	48,030,872	81.8%
2011	105,262,299	145,078,402	72.6%	39,816,103	48,533,150	82.0%
2012	119,057,419	156,549,456	76.1%	37,492,037	47,490,291	78.9%

* As of December 31, of the preceding year, the date of the actuarial valuation.

** Information is from appropriate year supplements to TMRS annual reports.

See accompanying independent auditor's report.

**CITY OF MCKINNEY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MCKINNEY EMPLOYEES OTHER POST EMPLOYMENT BENEFITS PLAN
ANALYSIS OF FUNDING PROGRESS
(UNAUDITED)**

Fiscal Year *	(1) Actuarial Value Of Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
2007	N/A	N/A	N/A	N/A	N/A	N/A
2008	-	\$ 1,186,584	0.0%	\$ 1,186,584	\$ 42,109,757	2.8%
2009	-	1,186,584	0.0%	1,186,584	47,208,569	2.5%
2010	-	1,186,584	0.0%	1,186,584	48,030,872	2.5%
2011	-	3,102,107	0.0%	3,102,107	48,533,150	6.4%
2012	-	3,102,107	0.0%	3,102,107	47,490,291	6.5%

* As of March 31, of the fiscal year, the date of the actuarial valuation.

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



**CITY OF MCKINNEY, TEXAS
BUDGETARY COMPARISON SCHEDULE (GAAP BASIS)
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
				<u>Positive (Negative)</u>
REVENUES				
Property taxes	\$ 19,378,345	\$ 19,583,367	\$ 19,632,748	\$ 49,381
Charges for service	528,000	528,000	528,000	-
Investment income	40,000	48,527	42,454	(6,073)
Total revenues	19,946,345	20,159,894	20,203,202	43,308
EXPENDITURES				
Principal retirement	10,300,000	10,300,000	10,390,000	(90,000)
Interest and fiscal charges	9,616,103	9,616,103	9,466,819	149,284
Total expenditures	19,916,103	19,916,103	19,856,819	59,284
Excess/(deficiency) of revenues over expenditures	30,242	243,791	346,383	102,592
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	14,670,000	14,670,000
Deposit to escrow account	-	-	(16,685,444)	(16,685,444)
Premium on issuance of debt	-	-	2,127,248	2,127,248
Total other financing sources (uses)	-	-	111,804	111,804
Net changes in fund balances	30,242	243,791	458,187	214,396
Fund balances, beginning of year	1,261,454	1,261,454	1,261,454	-
Fund balances, end of year	<u>\$ 1,291,696</u>	<u>\$ 1,505,245</u>	<u>\$ 1,719,641</u>	<u>\$ 214,396</u>

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

HOTEL/MOTEL FUND -to account for a 7% hotel/motel tax imposed on lodging fees for the purpose of funding activities and programs that are allowed by the hotel/motel tax to promote tourism.

LAW ENFORCEMENT FUND - to account for donations and funds derived from police investigation of criminal activities.

FIRE DONATIONS FUND – to account for funds provided by private donors to assist in the purchase of fire department equipment and related expenses.

LIBRARY GIFT FUND - to account for county contributions and funds provided by private donors for the purpose of supporting library operations.

COMMUNITY HOUSING FUND - to account for grants and funding received for affordable housing programs.

GRANTS FUND – to account for local, state, federal, and private grants received for governmental operations and projects.

VETERANS MEMORIAL FUND – to account for funds provided by private donors for the purpose of maintaining facilities and supporting special events at the Veterans Memorial Park.

TAX INCREMENT REINVESTMENT ZONE 1 (TIRZ 1) – to account for property and sales taxes collected in the TIRZ 1 zone for the purpose of funding infrastructure and projects in the Historic Town Center.

TAX INCREMENT REINVESTMENT ZONE 2 (TIRZ 2) – to account for property and sales taxes collected in the TIRZ 2 zone for the purpose of funding infrastructure to the Airport.

NON-MAJOR GOVERNMENTAL FUNDS – CONTINUED

CAPITAL PROJECTS FUNDS

TECHNOLOGY IMPROVEMENT FUND – to account for technology infrastructure improvements and computer hardware/software needs. Inter-fund charges through cost allocation provide revenue sources to this fund.

FIRE IMPROVEMENT FUND - to account for land acquisition, construction, renovation, and equipping of fire facilities. Proceeds from bonds and other non-recurring revenue sources are allocated to this fund.

PARK CONSTRUCTION FUND - to account for land acquisition, construction, renovation, and equipping of parks and recreation facilities. Proceeds from bonds, grants, and other non-recurring revenue sources are allocated to this fund.

FACILITIES IMPROVEMENT FUND – to account for land acquisition, construction, renovation, and equipping of government facilities. Proceeds from bonds and other non-recurring revenue sources are allocated to this fund.

LIBRARY IMPROVEMENT FUND – to account for land acquisition, construction, renovation, and equipping of library facilities. Proceeds from bonds and other non-recurring revenue sources are allocated to this fund.

STORMWATER CONSTRUCTION FUND – to account for the construction of drainage related improvements. Proceeds from bonds, grants, and other non-recurring revenue sources are allocated to this fund.

**CITY OF MCKINNEY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	Special Revenue								
	Hotel/Motel	Law Enforcement	Fire Donations	Library Gift	Community Housing	Grants	Veterans Memorial	TIRZ 1	TIRZ 2
ASSETS									
Cash and cash equivalents	\$ 216,346	\$ 640,436	\$ 26,043	\$ 168,894	\$ 60,442	\$ 360,217	\$ 6,371	\$ 700,916	\$ 455,440
Receivables:									
Accounts	6,230	-	-	-	-	-	-	-	-
Other taxes	86,666	-	-	-	-	-	-	73,339	38,051
Due from other governments	-	-	-	-	181,914	131,113	-	-	-
Prepaid items	-	325	-	17,616	1,035	-	-	-	-
Total assets	\$ 309,242	\$ 640,761	\$ 26,043	\$ 186,510	\$ 243,391	\$ 491,330	\$ 6,371	\$ 774,255	\$ 493,491
LIABILITIES									
Accounts payable	\$ -	\$ 3,273	\$ 2,060	\$ -	\$ 20,249	\$ 65,331	\$ -	\$ -	\$ -
Other accrued liabilities	-	87,383	-	-	5,622	-	-	-	-
Due to other funds	-	-	-	-	160,000	-	-	-	-
Deferred revenue	-	-	-	-	-	30,053	-	-	-
Total liabilities	-	90,656	2,060	-	185,871	95,384	-	-	-
FUND BALANCES									
NonSpendable									
Prepaid items	-	325	-	17,616	1,035	-	-	-	-
Restricted									
Capital Projects	-	-	-	-	-	-	-	774,255	493,491
Law Enforcement	-	549,780	-	-	-	-	-	-	-
Fire	-	-	23,983	-	-	-	-	-	-
Library	-	-	-	168,894	-	-	-	-	-
Community Housing	-	-	-	-	56,485	-	-	-	-
Hotel/Motel	309,242	-	-	-	-	-	-	-	-
Veterans Memorial Park	-	-	-	-	-	-	6,371	-	-
Grants	-	-	-	-	-	395,946	-	-	-
Total fund balances	309,242	550,105	23,983	186,510	57,520	395,946	6,371	774,255	493,491
Total liabilities and fund balances	\$ 309,242	\$ 640,761	\$ 26,043	\$ 186,510	\$ 243,391	\$ 491,330	\$ 6,371	\$ 774,255	\$ 493,491

Capital Projects

Technology Improvement	Fire Improvement	Park Construction	Facilities Improvement	Library Improvement	Stormwater Construction	Total Nonmajor Governmental Funds
\$ 1,922,762	\$ 581,456	\$ 22,558,017	\$ 7,570,952	\$ 335,826	\$ 3,359,465	\$ 38,963,583
-	-	-	-	-	-	6,230
-	-	-	-	-	-	198,056
-	-	-	-	-	-	313,027
-	-	-	-	-	-	18,976
<u>\$ 1,922,762</u>	<u>\$ 581,456</u>	<u>\$ 22,558,017</u>	<u>\$ 7,570,952</u>	<u>\$ 335,826</u>	<u>\$ 3,359,465</u>	<u>\$ 39,499,872</u>
\$ 78,320	\$ -	\$ 931,051	\$ -	\$ -	\$ 141,758	\$ 1,242,042
-	-	144,536	9,664	24,753	6,253	278,211
-	-	-	-	-	-	160,000
-	-	-	-	-	-	30,053
<u>78,320</u>	<u>-</u>	<u>1,075,587</u>	<u>9,664</u>	<u>24,753</u>	<u>148,011</u>	<u>1,710,306</u>
-	-	-	-	-	-	18,976
1,844,442	581,456	21,482,430	7,561,288	311,073	3,211,454	36,259,889
-	-	-	-	-	-	549,780
-	-	-	-	-	-	23,983
-	-	-	-	-	-	168,894
-	-	-	-	-	-	56,485
-	-	-	-	-	-	309,242
-	-	-	-	-	-	6,371
-	-	-	-	-	-	395,946
<u>1,844,442</u>	<u>581,456</u>	<u>21,482,430</u>	<u>7,561,288</u>	<u>311,073</u>	<u>3,211,454</u>	<u>37,789,566</u>
<u>\$ 1,922,762</u>	<u>\$ 581,456</u>	<u>\$ 22,558,017</u>	<u>\$ 7,570,952</u>	<u>\$ 335,826</u>	<u>\$ 3,359,465</u>	<u>\$ 39,499,872</u>

**CITY OF MCKINNEY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE- NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Special Revenue								
	Hotel/Motel	Law Enforcement	Fire Donations	Library Gift	Community Housing	Grants	Veterans Memorial	TIRZ 1	TIRZ 2
REVENUES									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,875	\$ 92,682
Sales and use taxes	615,880	-	-	-	-	-	-	438,176	228,046
Intergovernmental	-	-	-	64,867	505,753	761,705	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	571,411	-	-	-	-	-	-	-
Investment income	1,778	4,702	351	2,665	205	-	9	2,572	1,728
Contributions	-	9,118	2,160	19,355	-	2,276	6,362	-	-
Miscellaneous	6,230	-	-	54	1,715	-	-	-	-
Total revenues	623,888	585,231	2,511	86,941	507,673	763,981	6,371	445,623	322,456
EXPENDITURES									
Current:									
General government	-	-	-	-	-	341,659	-	-	-
Police	-	199,773	-	-	-	252,592	-	-	-
Fire	-	-	5,386	-	-	12,294	-	-	-
Libraries	-	-	-	168,786	-	-	-	-	-
Development	459,370	-	-	-	597,558	127,255	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	-
Capital Expenditures:									
General government	-	-	-	-	-	73,848	-	-	-
Police	-	20,240	-	-	-	10,168	-	-	-
Libraries	-	-	-	122,500	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Total expenditures	459,370	220,013	5,386	291,286	597,558	817,816	-	-	-
Excess (deficiency) of revenues over expenditures	164,518	365,218	(2,875)	(204,345)	(89,885)	(53,835)	6,371	445,623	322,456
OTHER FINANCING SOURCES (USES)									
Proceeds from sale of property	-	-	-	-	-	-	-	-	-
Transfers in	-	20,000	-	-	83,000	299,489	-	328,632	171,035
Transfers out	(41,630)	-	-	-	(600)	-	-	-	-
Total other financing sources (uses):	(41,630)	20,000	-	-	82,400	299,489	-	328,632	171,035
Net change in fund balances	122,888	385,218	(2,875)	(204,345)	(7,485)	245,654	6,371	774,255	493,491
Fund balances, beginning of year, as restated	186,354	164,887	26,858	390,855	65,005	150,292	-	-	-
Fund balances, end of year, as restated	\$ 309,242	\$ 550,105	\$ 23,983	\$ 186,510	\$ 57,520	\$ 395,946	\$ 6,371	\$ 774,255	\$ 493,491

Capital Projects							Total
Technology Improvement	Fire Improvement	Park Construction	Facilities Improvement	Library Improvement	Stormwater Construction	Governmental Funds	Nonmajor
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,557	
-	-	-	-	-	-	1,282,102	
-	-	42,313	-	-	67,853	1,442,491	
4,767	-	-	-	-	-	4,767	
-	-	-	-	-	-	571,411	
14,824	4,469	54,791	19,060	4,178	15,975	127,307	
-	-	3,710,410	-	-	45,148	3,794,829	
-	82,000	69,116	-	-	72,794	231,909	
19,591	86,469	3,876,630	19,060	4,178	201,770	7,552,373	
615,717	-	-	145,946	-	-	1,103,322	
-	-	-	-	-	-	452,365	
-	-	-	-	-	-	17,680	
-	-	-	-	-	-	168,786	
-	-	-	-	-	-	1,184,183	
-	-	2,179	-	-	-	2,179	
105,763	-	-	4,028	-	-	183,639	
-	-	-	222,556	-	-	252,964	
-	-	-	-	252,085	-	374,585	
-	-	4,992,878	6,600	-	-	4,999,478	
-	-	-	-	-	761,843	761,843	
721,480	-	4,995,057	379,130	252,085	761,843	9,501,024	
(701,889)	86,469	(1,118,427)	(360,070)	(247,907)	(560,073)	(1,948,651)	
-	135,891	-	-	-	-	135,891	
817,129	-	-	-	-	-	1,719,285	
-	-	-	-	-	-	(42,230)	
817,129	135,891	-	-	-	-	1,812,946	
115,240	222,360	(1,118,427)	(360,070)	(247,907)	(560,073)	(135,705)	
1,729,202	359,096	22,600,857	7,921,358	558,980	3,771,527	37,925,271	
\$ 1,844,442	\$ 581,456	\$ 21,482,430	\$ 7,561,288	\$ 311,073	\$ 3,211,454	\$ 37,789,566	

**CITY OF MCKINNEY, TEXAS
 BUDGETARY COMPARISON (GAAP BASIS)
 HOTEL/MOTEL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
REVENUES				
Sales and use taxes	\$ 500,000	\$ 500,000	\$ 615,880	\$ 115,880
Investment income	-	-	1,778	1,778
Miscellaneous	1,000	2,247	6,230	3,983
Total revenues	<u>501,000</u>	<u>502,247</u>	<u>623,888</u>	<u>121,641</u>
EXPENDITURES				
General government	459,370	459,370	459,370	-
Total expenditures	<u>459,370</u>	<u>459,370</u>	<u>459,370</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	41,630	42,877	164,518	121,641
OTHER FINANCING SOURCES (USES)				
Transfers out	(41,630)	(41,630)	(41,630)	-
Total other financing sources (uses)	<u>(41,630)</u>	<u>(41,630)</u>	<u>(41,630)</u>	<u>-</u>
Net change in fund balances	-	1,247	122,888	121,641
Fund balances, beginning of year, as restated	186,354	186,354	186,354	-
Fund balances, end of year	<u>\$ 186,354</u>	<u>\$ 187,601</u>	<u>\$ 309,242</u>	<u>\$ 121,641</u>

**CITY OF MCKINNEY, TEXAS
BUDGETARY COMPARISON (GAAP BASIS)
COMMUNITY HOUSING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
REVENUES				
Intergovernmental	\$ 916,257	\$ 889,657	\$ 505,753	\$ (383,904)
Investment income	-	166	205	39
Miscellaneous	-	-	1,715	1,715
Total revenues	<u>916,257</u>	<u>889,823</u>	<u>507,673</u>	<u>(382,150)</u>
EXPENDITURES				
Development	<u>992,141</u>	<u>1,022,259</u>	<u>597,558</u>	<u>424,701</u>
Total expenditures	<u>992,141</u>	<u>1,022,259</u>	<u>597,558</u>	<u>424,701</u>
Excess (deficiency) of revenues over expenditures	<u>(75,884)</u>	<u>(132,436)</u>	<u>(89,885)</u>	<u>42,551</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	83,000	83,000	83,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>(600)</u>	<u>(600)</u>
Total other financing sources (uses)	<u>83,000</u>	<u>83,000</u>	<u>82,400</u>	<u>(600)</u>
Net change in fund balances	7,116	(49,436)	(7,485)	41,951
Fund balances, beginning of year	<u>65,005</u>	<u>65,005</u>	<u>65,005</u>	<u>-</u>
Fund balances, end of year	<u>\$ 72,121</u>	<u>\$ 15,569</u>	<u>\$ 57,520</u>	<u>\$ 41,951</u>

**CITY OF MCKINNEY, TEXAS
 BUDGETARY COMPARISON (GAAP BASIS)
 GRANTS FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
REVENUES				
Intergovernmental	\$ 1,523,136	\$ 869,891	\$ 761,705	\$ (108,186)
Contributions	-	-	2,276	2,276
Total revenues	<u>1,523,136</u>	<u>869,891</u>	<u>763,981</u>	<u>(105,910)</u>
EXPENDITURES				
General government	441,044	473,910	415,507	58,403
Police	964,317	262,571	262,760	(189)
Fire	184,404	3,843	12,294	(8,451)
Libraries	24,860	-	-	-
Development	208,000	392,537	127,255	265,282
Total expenditures	<u>1,822,625</u>	<u>1,132,861</u>	<u>817,816</u>	<u>315,045</u>
Excess (deficiency) of revenues over expenditures	<u>(299,489)</u>	<u>(262,970)</u>	<u>(53,835)</u>	<u>209,135</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	299,489	299,489	299,489	-
Total other financing sources (uses)	<u>299,489</u>	<u>299,489</u>	<u>299,489</u>	<u>-</u>
Net change in fund balances	-	36,519	245,654	209,135
Fund balances, beginning of year	<u>150,292</u>	<u>150,292</u>	<u>150,292</u>	<u>-</u>
Fund balances, end of year	<u>\$ 150,292</u>	<u>\$ 186,811</u>	<u>\$ 395,946</u>	<u>\$ 209,135</u>

**CITY OF MCKINNEY, TEXAS
 BUDGETARY COMPARISON (GAAP BASIS)
 TECHNOLOGY IMPROVEMENT FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
REVENUES				
Charges for services	\$ -	\$ -	\$ 4,767	\$ 4,767
Investment income	10,000	15,484	14,824	(660)
Total revenues	<u>10,000</u>	<u>15,484</u>	<u>19,591</u>	<u>4,107</u>
EXPENDITURES				
General government	821,896	821,896	721,480	100,416
Total expenditures	<u>821,896</u>	<u>821,896</u>	<u>721,480</u>	<u>100,416</u>
Excess (deficiency) of revenues over expenditures	<u>(811,896)</u>	<u>(806,412)</u>	<u>(701,889)</u>	<u>104,523</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	821,896	821,896	817,129	(4,767)
Total other financing sources (uses)	<u>821,896</u>	<u>821,896</u>	<u>817,129</u>	<u>(4,767)</u>
Net change in fund balances	10,000	15,484	115,240	99,756
Fund balances, beginning of year	<u>1,729,202</u>	<u>1,729,202</u>	<u>1,729,202</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,739,202</u>	<u>\$ 1,744,686</u>	<u>\$ 1,844,442</u>	<u>\$ 99,756</u>

NON-MAJOR ENTERPRISE FUNDS

GOLF COURSE FUND - to account for revenue received and operating expenses incurred in the operation of Oak Hollow Municipal Golf Course.

SURFACE WATER DRAINAGE UTILITY FUND - to account for revenue paid by utility customers and allowable expenses under the Surface Drainage Utility System Ordinance.

SOLID WASTE FUND - to account for revenues and operating costs of providing solid waste and recycling services.

**CITY OF MCKINNEY, TEXAS
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds			
	Golf Course	Surface Water		Total Non-major Enterprise Funds
		Drainage	Solid Waste	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 117,446	\$ 1,895,192	\$ 4,910,242	\$ 6,922,880
Investments	-	-	530,000	530,000
Restricted assets:				
Cash and cash equivalents	10,000	-	-	10,000
Accounts receivable (net of allowance for uncollectibles)	126,911	223,280	1,493,345	1,843,536
Accrued interest	-	-	1,988	1,988
Notes receivable- interfund	-	-	970,753	970,753
Notes receivable- component unit	-	-	5,177,500	5,177,500
Prepays	-	2,676	562	3,238
Total currents assets	254,357	2,121,148	13,084,390	15,459,895
Non-current assets:				
Capital assets:				
Land	402,213	-	164,296	566,509
Buildings	1,499,162	-	164,402	1,663,564
Improvements other than buildings	2,522,526	-	635,972	3,158,498
Machinery and equipment	442,525	14,730	405,127	862,382
Less accumulated depreciation	(2,253,148)	(6,750)	(869,421)	(3,129,319)
Total capital assets (net of accumulated depreciation)	2,613,278	7,980	500,376	3,121,634
TOTAL ASSETS	2,867,635	2,129,128	13,584,766	18,581,529
LIABILITIES				
Current liabilities:				
Accounts payable	5,664	55,358	78,058	139,080
Other accrued liabilities	-	16,688	560,882	577,570
Due to other funds	-	-	35,072	35,072
Notes payable	46,312	-	-	46,312
Compensated Absences	-	8,986	10,216	19,202
Total current liabilities	51,976	81,032	684,228	817,236
Payable from restricted assets:				
Deposits	10,000	-	-	10,000
Total current liabilities payable from restricted assets	10,000	-	-	10,000
Non-current liabilities:				
Compensated absences	-	41,868	47,598	89,466
Notes payable	924,441	-	-	924,441
Total non-current liabilities	924,441	41,868	47,598	1,013,907
TOTAL LIABILITIES	986,417	122,900	731,826	1,841,143
NET ASSETS				
Invested in capital assets, net of related debt	2,613,278	7,980	500,376	3,121,634
Unrestricted	(732,060)	1,998,248	12,352,564	13,618,752
Total net assets	\$ 1,881,218	\$ 2,006,228	\$ 12,852,940	\$ 16,740,386

**CITY OF MCKINNEY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS- NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds			Total Non-major Enterprise Funds
	Golf Course	Surface Water Drainage	Solid Waste	
OPERATING REVENUES				
Charges for services	\$ 39,620	\$ 1,880,951	\$ 6,673,152	\$ 8,593,723
Miscellaneous	75,557	-	90,594	166,151
Total operating revenues	115,177	1,880,951	6,763,746	8,759,874
OPERATING EXPENSES				
Personnel services	-	774,736	744,144	1,518,880
Materials and supplies	-	48,105	39,612	87,717
Maintenance	-	239,699	22,996	262,695
Contract payments	11,750	396,164	5,619,019	6,026,933
Utilities	-	3,792	6,935	10,727
Depreciation	190,605	1,842	61,149	253,596
Other	17,785	87,239	78,255	183,279
Total operating expenses	220,140	1,551,577	6,572,110	8,343,827
Operating income (loss)	(104,963)	329,374	191,636	416,047
NON-OPERATING REVENUES (EXPENSES)				
Investment income	219	7,786	230,667	238,672
Total non-operating revenues	219	7,786	230,667	238,672
Income(loss) before contributions and transfers	(104,744)	337,160	422,303	654,719
Transfers out	(5,000)	(65,081)	(389,078)	(459,159)
Change in net assets	(109,744)	272,079	33,225	195,560
Total net assets - beginning	1,990,962	1,734,149	12,819,715	16,544,826
Total net assets - ending	\$ 1,881,218	\$ 2,006,228	\$ 12,852,940	\$ 16,740,386

**CITY OF MCKINNEY, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Business-type Activities - Enterprise Funds			Total Non-Major Enterprise Funds
	Golf Course	Surface Water Drainage	Solid Waste	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ (37,050)	\$ 1,843,575	\$ 7,119,292	\$ 8,925,817
Other operating revenues	75,557	-	90,594	166,151
Cash payments for employee services	-	(757,602)	(729,361)	(1,486,963)
Cash payments to suppliers for goods and services	(130,875)	(729,426)	(5,662,004)	(6,522,305)
Net cash provided (used in) by operating activities	(92,368)	356,547	818,521	1,082,700
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers out	(5,000)	(65,081)	(389,078)	(459,159)
Net cash used in non-capital financing activities	(5,000)	(65,081)	(389,078)	(459,159)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal payments on loans	(45,515)	-	-	(45,515)
Proceeds from advances	-	-	45,515	45,515
Net cash used in capital and related financing activities	(45,515)	-	45,515	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investment securities	-	-	(530,000)	(530,000)
Proceeds from sale and maturities of investment securities	-	-	-	-
Investment earnings	219	7,786	228,680	236,685
Net cash provided (used in) by investing activities	219	7,786	(301,320)	(293,315)
Net increase (decrease) in cash	(142,664)	299,252	173,638	330,226
Cash and cash equivalents at beginning of year	270,110	1,595,940	4,736,604	6,602,654
Cash and cash equivalents at end of year	<u>\$ 127,446</u>	<u>\$ 1,895,192</u>	<u>\$ 4,910,242</u>	<u>\$ 6,932,880</u>
RECONCILIATION OF TOTAL CASH TO THE STATEMENT OF NET ASSETS				
Unrestricted cash and cash equivalents	\$ 117,446	\$ 1,895,192	\$ 4,910,242	\$ 6,922,880
Restricted cash and cash equivalents	10,000	-	-	10,000
	<u>\$ 127,446</u>	<u>\$ 1,895,192</u>	<u>\$ 4,910,242</u>	<u>\$ 6,932,880</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (104,963)	\$ 329,374	\$ 191,636	\$ 416,047
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	190,605	1,842	61,149	253,596
Provision for uncollectibles	-	(1,828)	(21,382)	(23,210)
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(76,670)	(35,548)	467,522	355,304
Inventory	-	-	1,526	1,526
Prepaid expenses	-	(2,676)	(562)	(3,238)
Increase (decrease) in liabilities:				
Accounts payable	(1,340)	48,249	66,781	113,690
Accrued liabilities	-	1,126	42,397	43,523
Due to other funds	(100,000)	-	(3,265)	(103,265)
Liability for accrued vacation	-	16,008	12,719	28,727
Total adjustments	12,595	27,173	626,885	666,653
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (92,368)	\$ 356,547	\$ 818,521	\$ 1,082,700



FIDUCIARY FUNDS

**CITY OF MCKINNEY, TEXAS
STATEMENT OF CHANGES IN AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUND
YEAR ENDED SEPTEMBER 30, 2012**

BB Owen Park	<u>Balance September 2011</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>Balance September 2012</u>
ASSETS:				
Cash and cash equivalents	\$ 10,924,132	\$ 28,590	\$ -	\$ 10,952,722
Total Assets	<u>\$ 10,924,132</u>	<u>\$ 28,590</u>	<u>\$ -</u>	<u>\$ 10,952,722</u>
 LIABILITIES:				
Other accrued liabilities	\$ 10,924,132	\$ 28,590	\$ -	\$ 10,952,722
Total Liabilities	<u>\$ 10,924,132</u>	<u>\$ 28,590</u>	<u>\$ -</u>	<u>\$ 10,952,722</u>



DISCRETELY PRESENTED COMPONENT UNITS

MCKINNEY ECONOMIC DEVELOPMENT CORPORATION – purpose is to aid, promote and further the economic development within the City.

MCKINNEY COMMUNITY DEVELOPMENT CORPORATION – purpose is to identify and fund public projects to maintain or enhance the quality of life in the city.

MCKINNEY CONVENTION & VISITORS BUREAU – to account for funds received from the local hotel/motel tax. This fund's purpose is to promote tourism and make the City of McKinney the destination of choice.

COLLIN COUNTY AIRPORT DEVELOPMENT CORPORATION – The purpose of the CCADC is to provide an economic engine for the entire region facilitating general and business aviation and related services.

**CITY OF MCKINNEY, TEXAS
 COMBINING BALANCE SHEET-MCKINNEY ECONOMIC DEVELOPMENT CORPORATION
 SEPTEMBER 30, 2012**

	MEDC Operating Fund	Debt Service Fund	Debt Reserve Fund	Total
ASSETS				
Cash and cash equivalents	\$ 10,289,496	\$ -	\$ -	\$ 10,289,496
Restricted cash and cash equivalents	-	1,228	1,584,881	1,586,109
Accounts receivable	1,752,571	-	-	1,752,571
Prepaid items	176,393	-	-	176,393
Total assets	\$ 12,218,460	\$ 1,228	\$ 1,584,881	\$13,804,569
LIABILITIES				
Accounts payable	\$ 53,499	\$ -	\$ -	\$ 53,499
Other accrued liabilities	6,500	-	-	6,500
Total liabilities	59,999	-	-	59,999
FUND BALANCES				
NonSpendable				
Prepaid items	176,393	-	-	176,393
Restricted				
Debt service	-	1,228	-	1,228
Debt service reserve balance	-	-	1,584,881	1,584,881
Unassigned	11,982,068	-	-	11,982,068
Total fund balances	12,158,461	1,228	1,584,881	13,744,570
Total liabilities and fund balances	\$ 12,218,460	\$ 1,228	\$ 1,584,881	\$13,804,569

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS- MCKINNEY ECONOMIC
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2012**

Total fund balance-governmental funds.	\$ 13,744,570
Certain bond related items are expensed at the fund level, but are capitalized at the government-wide level and amortized over the life of the asset.	135,399
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	23,640,488
Accumulated depreciation has not been included in the governmental fund financial statements.	(223,952)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(22,401)
Bonds payable, contractual obligations and notes payable have not been included in the governmental fund financial statements.	(22,385,000)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.	<u>(77,918)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 14,811,186</u>

**CITY OF MCKINNEY, TEXAS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - MCKINNEY ECONOMIC
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	MEDC Operating Fund	Debt Service Fund	Debt Reserve Fund	Elimination	Total
REVENUES					
Sales and use taxes	\$ 8,759,753	\$ -	\$ -	\$ -	\$ 8,759,753
Investment income	30,244	10,067	3,533	-	43,844
Contributions	127,000	-	-	-	127,000
Total revenues	8,916,997	10,067	3,533	-	8,930,597
EXPENDITURES					
Economic development	1,267,641	-	-	-	1,267,641
Interest and fiscal charges	-	1,057,096	-	-	1,057,096
Principal payments	-	2,170,000	-	-	2,170,000
Total expenditures	1,267,641	3,227,096	-	-	4,494,737
Excess (deficiency) of revenues over expenditures	7,649,356	(3,217,029)	3,533	-	4,435,860
OTHER FINANCING SOURCES (USES)					
Transfers in	-	2,809,220	-	(2,809,220)	-
Transfers out	(2,809,220)	-	-	2,809,220	-
Total other financing sources (uses):	(2,809,220)	2,809,220	-	-	-
Excess (deficiency) of revenues and other sources over expenditures	4,840,136	(407,809)	3,533	-	4,435,860
Fund balances, beginning of year	7,318,325	409,037	1,581,348	-	9,308,710
Fund balances, end of year	<u>\$12,158,461</u>	<u>\$ 1,228</u>	<u>\$ 1,584,881</u>	<u>\$ -</u>	<u>\$ 13,744,570</u>

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES - MCKINNEY ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances- total governmental funds.	\$ 4,435,860
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net assets.	(19,479)
Current year long-term debt principal payments on contractual obligations, bonds payable, and capital leases are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	2,170,000
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due.	7,641
Bond issuance costs are expenditures in the fund financial statements when debt is issued, but are amortized over the term of the bond in the government-wide financial statements.	(19,523)
Additions to vacation and sick liabilities are not shown in the fund financial statements. The net effect of the current year increase is to decrease net assets.	<u>2,436</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 6,576,935</u></u>

**CITY OF MCKINNEY, TEXAS
 BALANCE SHEET- MCKINNEY COMMUNITY DEVELOPMENT CORPORATION
 SEPTEMBER 30, 2012**

	McKinney Community Development Corporation
ASSETS	
Cash and cash equivalents	\$ 22,993,725
Investments	3,025,800
Accounts receivable	1,778,223
Due from primary government	-
Prepaid items	10,756
Total assets	\$ 27,808,504
LIABILITIES	
Accounts payable	\$ 34,790
Other accrued liabilities	24,241
Total liabilities	59,031
FUND BALANCES	
NonSpendable	
Prepaid items	10,756
Unrestricted	27,738,717
Total fund balances	27,749,473
Total liabilities and fund balances	\$ 27,808,504

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET
ASSETS - MCKINNEY COMMUNITY DEVELOPMENT CORPORATION
SEPTEMBER 30, 2012**

Total fund balance-governmental funds.	\$ 27,749,473
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	7,793,169
Accumulated depreciation has not been included in the governmental fund financial statements.	(117,852)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	<u>(10,448)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 35,414,342</u>

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - MCKINNEY COMMUNITY DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	McKinney Community Development Corporation
REVENUES	
Sales and use taxes	\$ 8,759,754
Investment income	64,713
Total revenues	<u>8,824,467</u>
EXPENDITURES	
Community development	3,916,439
Capital outlay	208,076
Total expenditures	<u>4,124,515</u>
Excess of revenues over expenditures	<u>4,699,952</u>
Fund balances, beginning of year	<u>23,049,521</u>
Fund balances, end of year	<u><u>\$ 27,749,473</u></u>

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MCKINNEY COMMUNITY
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances- total governmental funds.	\$ 4,699,952
Current year capital outlays are expenditures in the fund financial statements, but they are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2012 capital outlays is to increase net assets.	208,076
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net assets.	(117,852)
Reductions of vacation and sick liabilities are not shown in the fund financial statements. The net effect of the current year increase is to decrease net assets.	<u>(674)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,789,502</u></u>

**CITY OF MCKINNEY, TEXAS
BALANCE SHEET – MCKINNEY CONVENTION AND VISITORS BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	McKinney Convention & Visitors Bureau
ASSETS	
Cash and cash equivalents	\$ 318,177
Accounts receivable	250
Prepaid items	<u>8,388</u>
Total assets	<u>\$ 326,815</u>
LIABILITIES	
Accounts payable	\$ 6,151
Other accrued liabilities	<u>3,561</u>
Total liabilities	<u>9,712</u>
FUND BALANCES	
NonSpendable	
Prepaid items	8,388
Unrestricted	<u>308,715</u>
Total fund balances	<u>317,103</u>
Total liabilities and fund balances	<u>\$ 326,815</u>

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS – MCKINNEY CONVENTION AND VISITORS BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Total fund balance-governmental funds.	\$	317,103
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.		<u>(11,129)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>305,974</u>

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
MCKINNEY CONVENTION AND VISITORS BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	McKinney Convention & Visitors Bureau
REVENUES	
Contributions	\$ 459,370
Investment income	1,661
Total revenues	<u>461,031</u>
EXPENDITURES	
Community development	<u>443,746</u>
Total expenditures	<u>443,746</u>
Excess of revenues over expenditures	17,285
Fund balances, beginning of year, as restated	<u>299,818</u>
Fund balances, end of year	<u><u>\$ 317,103</u></u>

**CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES – MCKINNEY CONVENTION AND VISITORS BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances- total governmental funds.	\$ 17,285
Reductions of vacation and sick liabilities are not shown in the fund financial statements. The net effect of the current year decrease is to increase net assets.	<u>1,931</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 19,216</u></u>

**CITY OF MCKINNEY, TEXAS
STATEMENT OF NET ASSETS- COLLIN COUNTY AIRPORT DEVELOPMENT
CORPORATION
SEPTEMBER 30, 2012**

	Collin County Airport Development Corporation
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 752,813
Restricted assets:	
Cash and cash equivalents	1,824,784
Receivables (net of allowance for uncollectibles)	1,796
Due from other governments	48,679
Total current assets	2,628,072
Capital assets:	
Land	13,851,019
Buildings	4,903,404
Improvements other than buildings	26,630,683
Machinery and equipment	504,162
Construction in progress	39,560,672
Less accumulated depreciation	(11,926,952)
Total capital assets (net of accumulated depreciation)	73,522,988
Total non-current assets	73,522,988
TOTAL ASSETS	\$ 76,151,060
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 17,360
Other accrued liabilities	8,668
Compensated absences	7,926
Total current liabilities unrestricted	33,954
Liabilities (payable from restricted assets):	
Deposits	22,714
Total current liabilities (payable from restricted assets)	22,714
Total current liabilities	56,668
Non-current liabilities:	
Compensated absences	36,928
Total non-current liabilities	36,928
TOTAL LIABILITIES	93,596
NET ASSETS	
Invested in capital assets	73,522,988
Unrestricted	2,534,476
TOTAL NET ASSETS	\$ 76,057,464

**CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – COLLIN
COUNTY AIRPORT DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Collin County Airport Development Corporation
OPERATING REVENUES	
Charges for services	\$ 464,223
Intergovernmental	186,289
Miscellaneous	12,031
Total operating revenues	<u>662,543</u>
OPERATING EXPENSES	
Personnel services	453,488
Materials and supplies	32,050
Maintenance	52,575
Contract payments	374,031
Utilities	45,597
Depreciation	1,245,541
Other	62,218
Total operating expenses	<u>2,265,500</u>
Operating loss	<u>(1,602,957)</u>
NON-OPERATING REVENUES (EXPENSES)	
Intergovernmental	12,688,345
Investment income	18,283
Loss on disposal of assets	(69,117)
Total non-operating revenues	<u>12,637,511</u>
Income before contributions	<u>11,034,554</u>
Contributions	<u>565,000</u>
Change in net assets	11,599,554
Total net assets-beginning, as restated	<u>64,457,910</u>
Total net assets-ending	<u><u>\$ 76,057,464</u></u>

**CITY OF MCKINNEY, TEXAS
STATEMENT OF CASH FLOWS- COLLIN COUNTY AIRPORT DEVELOPMENT
CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Collin County Airport Development Corporation</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 486,055
Other operating revenues	198,320
Cash payments to employees for services	(442,274)
Cash payments to suppliers for goods and services	<u>(582,436)</u>
Net cash used in operating activities	<u>(340,335)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(12,709,216)
Capital grants	12,688,345
Contributions	<u>565,000</u>
Cash provided by capital and related financing activities	<u>544,129</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>18,283</u>
Cash provided by investing activities	<u>18,283</u>
Net increase in cash	222,077
Cash and cash equivalents at beginning of year	<u>2,355,520</u>
Cash and cash equivalents at end of year	<u>\$ 2,577,597</u>
RECONCILIATION OF TOTAL CASH TO THE STATEMENT OF NET ASSETS	
Unrestricted cash and cash equivalents	\$ 752,813
Restricted cash and cash equivalents	<u>1,824,784</u>
	<u>\$ 2,577,597</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	<u>\$ (1,602,957)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	1,245,541
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	16,832
Increase (decrease) in liabilities:	
Accounts payable	(10,965)
Accrued liabilities	(4,739)
Liability for accrued vacation	10,953
Deposits	<u>5,000</u>
Total adjustments	<u>1,262,622</u>
Net cash used in operating activities	<u>\$ (340,335)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Loss on the disposal of capital assets	\$ 69,116



STATISTICAL SECTION



This part of the City of McKinney's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the City's overall financial health. This information has not been audited by the independent auditor.

<u>Contents</u>	<u>Table #s</u>
<p>Financial Trends These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</p>	1-4
<p>Revenue Capacity These tables contain information to help the reader assess the City's two most significant local revenue sources, the property and sales taxes.</p>	5-8
<p>Debt Capacity These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</p>	9-13
<p>Economic and Demographic Information These tables offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.</p>	14-15
<p>Operating Information These tables contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides.</p>	16-18

Source: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF MCKINNEY, TEXAS
NET ASSETS BY COMPONENT
ACCRUAL BASIS OF ACCOUNTING
LAST TEN FISCAL YEARS (UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets (net of related debt)	\$ 178,913,077	\$ 190,303,137	\$ 237,354,450	\$ 267,326,939
Restricted for:				
Use of impact fees	-	5,275,989	6,931,347	6,682,804
Highways and streets	-	-	-	-
Debt service	1,113,696	1,473,936	385,799	1,608,313
Other capital projects	-	-	-	-
Public Safety	-	-	-	-
Community development	-	-	-	-
Library	-	-	-	-
Cultural and recreation	-	-	-	-
Grants	-	242,563	117,354	-
Unrestricted	26,272,630	50,881,072	33,120,488	42,300,986
Total governmental activities net assets	\$ 206,299,403	\$ 248,176,697	\$ 277,909,438	\$ 317,919,042
Business-type activities				
Invested in capital assets (net of related debt)	\$ 103,016,384	\$ 122,314,816	\$ 143,430,759	\$ 162,966,613
Restricted for:				
Use of impact fees	3,956,901	5,420,092	2,336,291	3,853,405
Debt service	1,747,113	2,060,200	2,391,615	1,146,486
Unrestricted	32,655,654	30,660,151	34,690,519	42,372,380
Total business-type activities net assets	\$ 141,376,052	\$ 160,455,259	\$ 182,849,184	\$ 210,338,884
Primary government				
Invested in capital assets (net of related debt)	\$ 281,929,461	\$ 312,617,953	\$ 380,785,209	\$ 430,293,552
Restricted for:				
Use of impact fees	3,956,901	10,696,081	9,267,638	10,536,209
Highways and streets	-	-	-	-
Debt service	2,860,809	3,534,136	2,777,414	2,754,799
Other capital projects	-	-	-	-
Public Safety	-	-	-	-
Community development	-	-	-	-
Library	-	-	-	-
Cultural and recreation	-	-	-	-
Grants	-	242,563	117,354	-
Unrestricted	58,928,284	81,541,223	67,811,007	84,673,366
Total primary governmental net assets	\$ 347,675,455	\$ 408,631,956	\$ 460,758,622	\$ 528,257,926

Source: Comprehensive Annual Financial Report

Note: Beginning in 2011, net assets reflect the omission of MCVB, which is now reported as a discretely presented component unit.
In addition, beginning in 2012, GASB Statement 54 was adopted which amended fund balance classifications.

TABLE 1

		Fiscal Year					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
\$	297,203,029	\$ 239,601,800	\$ 285,415,013	\$ 290,201,450	\$ 284,785,050	\$ 274,618,286	
	5,914,879	5,876,387	5,849,676	2,027,269	4,061,242	4,549,816	
	-	40,323,951	42,770,468	33,628,327	31,376,277	26,796,515	
	1,265,064	1,504,492	1,812,651	588,843	219,454	888,855	
	-	-	-	-	-	36,259,889	
	-	-	-	-	-	573,763	
	-	-	-	-	-	309,242	
	-	-	-	-	-	168,894	
	-	-	-	-	-	6,371	
	-	-	62,137	22,136	65,005	452,431	
	44,022,473	59,424,524	59,789,506	61,481,942	64,368,362	42,284,705	
\$	<u>348,405,445</u>	<u>\$ 346,731,154</u>	<u>\$ 395,699,451</u>	<u>\$ 387,949,967</u>	<u>\$ 384,875,390</u>	<u>\$ 386,908,767</u>	
\$	176,356,253	\$ 180,859,674	\$ 171,936,373	\$ 206,148,786	\$ 208,847,556	\$ 218,424,139	
	1,646,162	1,760,033	2,083,128	2,537,464	2,704,125	5,025,467	
	3,248,974	3,707,091	4,151,257	4,625,915	4,980,679	5,324,601	
	46,817,740	55,657,877	89,351,500	63,541,978	74,128,202	78,188,714	
\$	<u>228,069,129</u>	<u>\$ 241,984,675</u>	<u>\$ 267,522,258</u>	<u>\$ 276,854,143</u>	<u>\$ 290,660,562</u>	<u>\$ 306,962,921</u>	
\$	473,559,282	\$ 420,461,474	\$ 457,351,386	\$ 496,350,236	\$ 493,632,606	\$ 493,042,425	
	7,561,041	7,636,420	7,932,804	4,564,733	6,765,367	9,575,283	
	-	40,323,951	42,770,468	33,628,327	31,376,277	26,796,515	
	4,514,038	5,211,583	5,963,908	5,214,758	5,200,133	6,213,456	
	-	-	-	-	-	36,259,889	
	-	-	-	-	-	573,763	
	-	-	-	-	-	309,242	
	-	-	-	-	-	168,894	
	-	-	-	-	-	6,371	
	-	-	62,137	22,136	65,005	452,431	
	90,840,213	115,082,401	149,141,006	125,023,920	138,496,564	120,473,419	
\$	<u>576,474,574</u>	<u>\$ 588,715,829</u>	<u>\$ 663,221,709</u>	<u>\$ 664,804,110</u>	<u>\$ 675,535,952</u>	<u>\$ 693,871,688</u>	

**CITY OF MCKINNEY, TEXAS
CHANGES IN NET ASSETS
ACCRUAL BASIS OF ACCOUNTING
LAST TEN FISCAL YEARS (UNAUDITED)**

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses					
Governmental activities:					
General government	\$ 6,001,097	\$ 4,502,994	\$ 11,891,231	\$ 14,655,266	\$ 16,703,632
Police	11,274,531	8,453,628	11,666,150	13,966,596	17,171,278
Fire	9,885,772	9,467,298	10,513,209	12,676,417	15,371,027
Libraries	2,216,319	2,171,326	2,381,996	2,497,842	2,624,278
Development	7,491,589	8,598,720	7,388,866	6,958,806	9,192,242
Parks and recreation	5,167,818	5,039,524	5,896,142	7,206,606	7,788,351
Public works	15,893,243	17,646,281	19,014,444	22,504,074	25,163,366
Other	2,793,801	3,102,824	-	-	-
Interest on long-term debt	3,300,896	4,585,441	4,784,081	5,059,203	8,108,639
Airport	653,178	1,440,169	1,150,965	3,218,089	614,282
Total governmental activities expenses	<u>64,678,244</u>	<u>65,008,205</u>	<u>74,687,084</u>	<u>88,742,899</u>	<u>102,737,095</u>
Business-type activities:					
Water/Wastewater	20,053,463	23,695,455	26,933,863	29,812,732	34,284,602
Solid Waste	2,569,876	3,251,727	3,928,218	3,939,969	4,625,896
Golf Course	1,065,050	1,112,196	1,070,936	1,031,145	963,658
Surface Water Drainage	133,581	320,919	400,622	48,944	25,000
Total business-type activities expenses	<u>23,821,970</u>	<u>28,380,297</u>	<u>32,333,639</u>	<u>34,832,790</u>	<u>39,899,156</u>
Total primary government expenses	<u>\$ 88,500,214</u>	<u>\$ 93,388,502</u>	<u>\$ 107,020,723</u>	<u>\$ 123,575,689</u>	<u>\$ 142,636,251</u>
Program Revenues					
Governmental activities:					
Charges for Services:					
General government	\$ 1,700,366	\$ 3,140,327	\$ 2,025,502	\$ 2,351,508	\$ 2,356,380
Police	194,677	118,293	1,488,554	1,320,381	1,737,930
Fire	591,876	611,379	1,383,419	1,295,885	985,641
Libraries	28,891	33,368	32,971	125,585	115,841
Development	5,935,022	6,587,926	6,821,159	7,407,719	5,410,173
Parks and recreation	415,748	532,230	557,662	894,362	929,376
Other	46,673	159,308	-	-	-
Interest on long-term debt	-	-	-	-	-
Airport	-	-	-	-	-
Operating grants and contributions	1,124,242	14,139,287	3,117,815	2,555,338	1,829,116
Capital grants and contributions	30,211,058	26,983,492	32,856,489	38,605,660	33,563,709
Total governmental activities program revenues	<u>40,248,553</u>	<u>52,305,610</u>	<u>48,283,571</u>	<u>54,556,438</u>	<u>46,928,166</u>
Business-type activities:					
Charges for Services:					
Water/Wastewater	22,653,778	27,038,928	32,446,505	39,393,138	35,082,265
Solid Waste	2,910,807	3,402,953	5,539,419	6,369,958	6,430,735
Golf Course	895,774	954,446	932,279	965,268	811,557
Surface Water Drainage	441,288	480,998	517,383	552,162	622,531
Operating grants and contributions	183,027	40,636	50,400	-	-
Capital grants and contributions	11,168,778	18,132,041	12,821,901	15,124,649	13,160,529
Total business-type activities program revenues	<u>38,253,452</u>	<u>50,050,002</u>	<u>52,307,887</u>	<u>62,405,175</u>	<u>56,107,617</u>
Total primary government program revenues	<u>\$ 78,502,005</u>	<u>\$ 102,355,612</u>	<u>\$ 100,591,458</u>	<u>\$ 116,961,613</u>	<u>\$ 103,035,783</u>

TABLE 2

Fiscal Year				
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 24,836,791	\$ 21,154,522	\$ 29,245,688	\$ 23,110,420	\$ 21,828,013
19,724,792	20,881,195	21,276,723	20,670,697	21,843,375
17,477,479	19,371,301	19,828,670	19,772,826	19,636,533
2,753,427	2,894,683	3,179,616	3,039,839	3,258,633
9,786,774	9,507,244	9,491,109	8,777,957	8,522,548
8,645,291	9,383,872	9,215,196	9,864,370	9,695,909
38,499,039	30,724,972	33,614,032	32,416,388	33,199,659
-	-	-	-	-
7,980,156	9,045,551	10,241,441	10,161,568	9,514,103
8,541,987	1,850,442	2,655,115	565,000	565,000
<u>138,245,736</u>	<u>124,813,782</u>	<u>138,747,590</u>	<u>128,379,065</u>	<u>128,063,773</u>
37,755,782	41,467,962	44,083,602	46,104,008	47,777,509
5,492,531	5,724,412	6,213,755	6,066,387	6,572,110
971,187	187,769	258,801	224,175	220,140
63,944	877,048	1,583,183	1,633,798	1,551,577
<u>44,283,444</u>	<u>48,257,191</u>	<u>52,139,341</u>	<u>54,028,368</u>	<u>56,121,336</u>
<u>\$ 182,529,180</u>	<u>\$ 173,070,973</u>	<u>\$ 190,886,931</u>	<u>\$ 182,407,433</u>	<u>\$ 184,185,109</u>
\$ 2,631,063	\$ 2,692,338	\$ 2,976,341	\$ 2,999,584	\$ 2,896,926
3,771,316	2,689,592	2,529,019	2,676,107	3,449,850
1,475,731	1,607,943	794,661	1,919,405	1,620,136
55,649	71,437	86,927	95,033	106,890
4,283,881	3,949,296	4,058,203	3,958,584	6,299,051
1,020,734	1,123,973	1,037,454	1,071,536	1,012,260
-	-	-	-	-
-	-	528,000	528,000	528,000
-	-	-	-	4,767
1,731,674	1,834,766	2,471,193	2,772,410	2,343,700
29,065,497	63,619,883	20,349,634	12,986,318	20,325,797
<u>44,035,545</u>	<u>77,589,228</u>	<u>34,831,432</u>	<u>29,006,977</u>	<u>38,587,377</u>
38,004,807	45,499,621	48,117,477	57,185,108	54,717,547
6,719,134	6,372,156	6,000,135	6,836,486	6,763,746
918,519	79,451	82,026	110,257	115,177
1,586,333	1,684,830	1,751,066	1,795,342	1,880,951
-	-	-	-	-
10,891,962	21,663,743	7,106,651	3,483,388	10,797,849
<u>58,120,755</u>	<u>75,299,801</u>	<u>63,057,355</u>	<u>69,410,581</u>	<u>74,275,270</u>
<u>\$ 102,156,300</u>	<u>\$ 152,889,029</u>	<u>\$ 97,888,787</u>	<u>\$ 98,417,558</u>	<u>\$ 112,862,647</u>

(continued)

**CITY OF MCKINNEY, TEXAS
CHANGES IN NET ASSETS – CONTINUED
ACCRUAL BASIS OF ACCOUNTING
LAST TEN FISCAL YEARS (UNAUDITED)**

	Fiscal Year				
	2003	2004	2005	2006	2007
Net (Expenses) Revenue					
Governmental activities	\$(24,429,691)	\$ (12,702,595)	\$ (26,403,513)	\$ (34,186,461)	\$ (55,808,929)
Business-type activities	14,431,482	21,669,705	19,974,248	27,572,385	16,208,461
Total primary government net expenses	<u>\$ (9,998,209)</u>	<u>\$ 8,967,110</u>	<u>\$ (6,429,265)</u>	<u>\$ (6,614,076)</u>	<u>\$ (39,600,468)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Property taxes	\$ 30,863,377	\$ 34,354,015	\$ 38,367,588	\$ 43,300,502	\$ 49,300,666
Sales and use taxes	8,218,570	9,572,791	12,179,328	14,030,309	16,189,172
Franchise taxes	5,440,761	5,907,349	6,918,032	8,661,620	8,462,571
Investment income	1,302,588	1,522,920	2,513,508	5,455,210	7,882,249
Gain on sale of capital assets	71,315	55,508	80,482	-	-
Miscellaneous	-	-	62,581	44,291	119,323
Contributions	-	-	(6,027,093)	-	-
Transfers	1,547,623	3,167,306	2,041,828	2,704,133	2,483,516
Prior period adjustment	-	-	-	-	1,857,835
Total governmental activities	<u>47,444,234</u>	<u>54,579,889</u>	<u>56,136,254</u>	<u>74,196,065</u>	<u>86,295,332</u>
Business-type activities:					
Investment income	764,703	889,810	1,164,701	2,621,448	3,688,586
Gain on sale of capital assets	3,742	(313,001)	24,808	-	32,147
Contributions	-	-	3,271,996	-	-
Transfers	(1,547,623)	(3,167,306)	(2,041,828)	(2,704,133)	(2,483,516)
Prior period adjustment	-	-	-	-	284,567
Total business-type activities	<u>(779,178)</u>	<u>(2,590,497)</u>	<u>2,419,677</u>	<u>(82,685)</u>	<u>1,521,784</u>
Total primary government	<u>\$ 46,665,056</u>	<u>\$ 46,665,056</u>	<u>\$ 58,555,931</u>	<u>\$ 74,113,380</u>	<u>\$ 87,817,116</u>
Change in Net Assets					
Governmental activities	\$ 23,014,543	\$ 41,877,294	\$ 29,732,741	\$ 40,009,604	\$ 30,486,403
Business-type activities	13,652,304	19,079,208	22,393,925	27,489,700	17,730,245
Total primary government	<u>\$ 36,666,847</u>	<u>\$ 60,956,502</u>	<u>\$ 52,126,666</u>	<u>\$ 67,499,304</u>	<u>\$ 48,216,648</u>

Source: Comprehensive Annual Financial Report

Note: Beginning in 2011, net assets reflect the omission of MCVB, which is now reported as a discretely presented component unit of the City.

TABLE 2

Fiscal Year				
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ (94,210,191)	\$ (47,224,554)	\$ (103,916,158)	\$ (99,372,088)	\$ (89,476,396)
13,837,311	27,042,610	10,918,014	15,382,213	18,153,934
<u>\$ (80,372,880)</u>	<u>\$ (20,181,944)</u>	<u>\$ (92,998,144)</u>	<u>\$ (83,989,875)</u>	<u>\$ (71,322,462)</u>
\$ 57,707,103	\$ 62,815,581	\$ 63,172,075	\$ 62,862,038	\$ 64,193,735
17,683,376	17,124,800	16,868,201	17,265,587	18,392,901
9,633,525	9,724,093	10,794,251	12,050,388	12,051,980
4,950,865	2,764,578	2,378,612	1,664,055	846,135
-	37,016	-	-	-
273,109	892,940	175,614	257,395	618,827
-	-	-	-	-
2,287,922	2,833,843	2,643,302	2,643,302	2,798,302
-	-	-	-	-
<u>92,535,900</u>	<u>96,192,851</u>	<u>96,032,055</u>	<u>96,742,765</u>	<u>98,901,880</u>
2,315,647	1,318,112	1,031,169	1,020,661	924,457
50,510	10,704	(37,436)	46,847	22,270
-	-	-	-	-
(2,287,922)	(2,833,843)	(2,643,302)	(2,643,302)	(2,798,302)
-	-	-	-	-
<u>78,235</u>	<u>(1,505,027)</u>	<u>(1,649,569)</u>	<u>(1,575,794)</u>	<u>(1,851,575)</u>
<u>\$ 92,614,135</u>	<u>\$ 94,687,824</u>	<u>\$ 94,382,486</u>	<u>\$ 95,166,971</u>	<u>\$ 97,050,305</u>
\$ (1,674,291)	\$ 48,968,297	\$ (7,884,103)	\$ (2,629,323)	\$ 9,425,484
13,915,546	25,537,583	9,268,445	13,806,419	16,302,359
<u>\$ 12,241,255</u>	<u>\$ 74,505,880</u>	<u>\$ 1,384,342</u>	<u>\$ 11,177,096</u>	<u>\$ 25,727,843</u>

(concluded)

**CITY OF MCKINNEY, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
LAST TEN FISCAL YEARS (UNAUDITED)**

	Fiscal Year		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund			
Non-spendable:			
Inventory	\$ -	\$ -	\$ -
Prepaid items	-	-	-
Land held for sale	-	-	-
Note receivable from component unit	-	-	-
Assigned:			
Insurance risk	-	-	-
OPEB	-	-	-
Unassigned	-	-	-
Reserved for:			
Inventory and prepaid items	58,409	82,878	573,578
Advance to other funds	815,727	850,000	1,005,000
Note receivable from component unit	-	1,715,000	2,135,000
Designated			
Insurance risk	-	-	-
Unreserved	<u>26,100,159</u>	<u>26,490,722</u>	<u>31,615,982</u>
Total general fund	<u>\$ 26,974,295</u>	<u>\$ 29,138,600</u>	<u>\$ 35,329,560</u>
All Other Governmental Funds			
Non-spendable:			
Prepaid items	\$ -	\$ -	\$ -
Restricted:			
Debt service	-	-	-
Street construction	-	-	-
Other capital projects funds	-	-	-
Law enforcement	-	-	-
Fire	-	-	-
Library	-	-	-
Community housing	-	-	-
Veterans Memorial Park	-	-	-
Hotel/Motel	-	-	-
Grants	-	-	-
Reserved for:			
Prepaid items	1,000,306	5,370	6,807
Debt service	1,113,696	1,473,936	960,697
Street construction	23,442,121	34,733,654	38,621,728
Capital projects funds	11,895,896	12,805,731	22,606,722
Unreserved, reported in:			
Special revenue funds	<u>1,642,901</u>	<u>1,524,448</u>	<u>2,878,919</u>
Total all other governmental funds	<u>\$ 39,094,920</u>	<u>\$ 50,543,139</u>	<u>\$ 65,074,873</u>

Source: Comprehensive Annual Financial Report

Note: The City implemented GASB Statement No 54 which amended fund balance classifications in 2011. In addition, beginning in 2011, fund balance reflects the omission of MCVB, which is now reported as a discretely presented component unit of the City.

TABLE 3

Fiscal Year						
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 396,975	\$ 193,885
-	-	-	-	-	-	304,556
-	-	-	-	-	-	315,194
-	-	-	-	-	2,917,500	1,647,500
-	-	-	-	-	1,600,559	-
-	-	-	-	-	1,530,120	1,692,681
-	-	-	-	-	35,521,032	46,207,763
523,923	764,432	885,780	1,054,833	941,699	-	-
725,000	725,000	589,000	-	-	-	-
1,695,000	1,240,000	775,000	10,355,000	4,102,500	-	-
3,682,374	2,472,273	2,291,879	1,600,559	1,600,559	-	-
<u>38,086,490</u>	<u>40,316,555</u>	<u>39,998,634</u>	<u>28,838,279</u>	<u>33,023,643</u>	<u>-</u>	<u>-</u>
<u>\$ 44,712,787</u>	<u>\$ 46,758,260</u>	<u>\$ 44,540,293</u>	<u>\$ 41,848,671</u>	<u>\$ 39,668,401</u>	<u>\$ 41,966,186</u>	<u>\$ 50,361,579</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,897	\$ 18,976
-	-	-	-	-	1,261,454	1,719,641
-	-	-	-	-	31,356,277	31,346,331
-	-	-	-	-	36,523,123	36,259,889
-	-	-	-	-	164,887	549,780
-	-	-	-	-	26,858	23,983
-	-	-	-	-	384,855	168,894
-	-	-	-	-	65,005	56,485
-	-	-	-	-	-	6,371
-	-	-	-	-	-	309,242
-	-	-	-	-	150,292	395,946
1,520	7,499	13,586	736,658	570,994	-	-
1,737,689	2,054,266	2,494,512	2,734,212	1,891,142	-	-
58,313,044	57,071,884	40,323,951	42,247,778	33,628,327	-	-
16,686,851	23,877,681	29,569,488	34,402,903	45,431,706	-	-
<u>3,248,852</u>	<u>2,850,885</u>	<u>2,782,428</u>	<u>2,208,805</u>	<u>1,975,456</u>	<u>-</u>	<u>-</u>
<u>\$ 79,987,956</u>	<u>\$ 85,862,215</u>	<u>\$ 75,183,965</u>	<u>\$ 82,330,356</u>	<u>\$ 83,497,625</u>	<u>\$ 70,356,648</u>	<u>\$ 70,855,538</u>

**CITY OF MCKINNEY, TEXAS
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 LAST TEN FISCAL YEARS (UNAUDITED)**

	Fiscal Year				
	2003	2004	2005	2006	2007
REVENUES					
Property taxes	\$ 30,863,377	\$ 34,421,989	\$ 38,209,386	\$ 43,188,169	\$ 49,491,145
Sales and use taxes	8,218,570	9,572,791	12,179,328	14,030,309	16,189,172
Franchise taxes	5,296,216	5,895,958	6,918,032	9,549,688	8,526,059
Licenses and permits	5,801,569	6,458,368	7,030,562	7,646,826	5,651,313
Intergovernmental	996,141	1,760,457	3,481,247	4,432,442	6,077,805
Charges for services	2,356,576	2,943,591	3,023,716	4,019,262	4,140,201
Fines and forfeitures	841,413	1,058,231	985,833	1,383,144	1,777,098
Assessments	-	-	-	-	-
Investment income	1,302,588	1,522,920	2,513,508	5,455,210	7,882,249
Contributions	4,468,905	7,017,011	11,210,592	13,233,500	5,332,359
Miscellaneous	503,656	7,909,483	154,034	187,019	149,371
Total revenues	60,649,011	78,560,799	85,706,238	103,125,569	105,216,772
EXPENDITURES					
General government	7,139,531	9,740,384	10,887,570	13,412,203	14,913,949
Police	9,865,889	10,544,857	11,028,188	13,247,346	16,273,783
Fire	9,181,035	8,907,146	9,729,318	11,919,118	14,473,038
Libraries	1,961,604	2,089,776	2,138,239	2,233,304	2,349,242
Development	6,213,481	4,055,123	7,223,146	6,638,554	9,305,154
Parks and recreation	7,446,216	4,266,251	4,776,586	5,785,330	5,945,941
Public works	6,531,238	7,302,929	6,535,672	9,145,253	9,964,055
Airport	617,043	1,440,169	650,000	3,614,677	614,282
Other	2,690,740	3,063,074	-	-	-
Capital outlay	12,143,880	33,324,468	34,561,215	41,031,431	35,697,217
Debt service:					
Principal retirement	5,291,405	5,161,938	6,889,362	6,168,369	6,722,708
Interest and fiscal charges	3,279,354	4,233,691	4,466,476	5,354,320	7,459,981
Total expenditures	72,361,416	94,129,806	98,885,772	118,549,905	123,719,350
Excess (deficiency) of revenues over (under) expenditures	(11,712,405)	(15,569,007)	(13,179,534)	(15,424,336)	(18,502,578)
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	21,260,577	25,930,904	31,705,000	64,015,000	20,490,000
Deposit to escrow account	-	-	-	(27,926,115)	-
Premium on issuance of debt	-	-	411,233	347,801	56,933
Proceeds from capital lease	-	-	-	379,683	-
Residual equity transfers	-	-	-	-	-
Proceeds from sale of property	107,362	79,254	241,065	30,897	294,026
Transfers in	5,662,938	7,419,827	5,132,157	4,979,364	6,460,890
Transfers in from component unit	-	-	-	-	-
Transfers out	(4,189,788)	(4,248,454)	(3,587,227)	(2,105,984)	(3,977,374)
Total other financing sources (uses)	22,841,089	29,181,531	33,902,228	39,720,646	23,324,475
Prior period adjustment	-	-	-	-	1,857,835
NET CHANGE IN FUND BALANCES	\$ 11,128,684	\$ 13,612,524	\$ 20,722,694	\$ 24,296,310	\$ 6,679,732
Debt service as a percentage of noncapital expenditures	14.2%	15.5%	17.7%	14.9%	16.1%

Source: Comprehensive Annual Financial Report

Note: Beginning in 2011, activity reflects the omission of MCVB, which is now reported as a discretely presented component unit of the City.

TABLE 4

		Fiscal Year				
		2008	2009	2010	2011	2012
\$	57,723,642	\$ 62,832,495	\$ 62,960,439	\$ 62,717,460	\$ 64,194,518	
	17,683,376	17,124,800	16,926,949	17,265,587	18,342,838	
	9,591,738	9,759,548	10,731,125	11,941,486	12,113,230	
	5,011,193	4,726,614	4,809,193	4,692,292	7,204,700	
	5,700,988	15,403,491	4,400,346	5,861,390	5,656,795	
	4,353,096	4,867,661	5,846,806	6,040,354	5,892,485	
	2,220,418	2,276,354	1,990,092	2,183,023	2,507,707	
	-	-	-	-	-	
	5,343,879	2,741,843	2,387,670	1,284,718	846,135	
	8,102,152	14,668,141	6,000,759	5,224,780	7,438,881	
	436,393	856,806	255,221	265,146	661,477	
	<u>116,166,875</u>	<u>135,257,753</u>	<u>116,308,600</u>	<u>117,476,236</u>	<u>124,858,766</u>	
	16,966,335	19,366,493	22,098,360	20,785,693	19,020,719	
	18,860,105	19,923,024	20,145,964	19,655,184	20,285,700	
	16,227,513	17,894,488	17,959,131	17,930,235	17,302,735	
	2,489,144	2,638,350	2,909,708	2,781,727	2,775,484	
	9,457,015	9,185,580	9,159,668	8,512,495	8,119,293	
	6,733,160	7,399,164	7,145,909	7,275,824	6,954,994	
	21,786,333	12,275,920	13,286,420	10,610,792	10,882,395	
	8,541,987	1,850,442	2,655,115	565,000	565,000	
	-	-	-	-	-	
	50,500,331	52,493,363	29,483,890	22,264,775	13,503,040	
	8,370,008	9,905,035	10,848,562	9,980,000	10,390,000	
	7,677,731	9,008,269	9,679,110	10,254,116	9,466,819	
	<u>167,609,662</u>	<u>161,940,128</u>	<u>145,371,837</u>	<u>130,615,841</u>	<u>119,266,179</u>	
	<u>(51,442,787)</u>	<u>(26,682,375)</u>	<u>(29,063,237)</u>	<u>(13,139,605)</u>	<u>5,592,587</u>	
	37,205,000	28,210,000	25,295,000	-	14,670,000	
	-	-	-	-	(16,685,444)	
	-	-	-	-	2,127,248	
	-	-	-	-	-	
	-	-	-	-	-	
	293,648	93,301	111,934	105,911	205,236	
	4,662,194	4,813,797	3,548,163	3,385,024	4,505,981	
	-	-	-	-	-	
	<u>(2,374,272)</u>	<u>(1,979,954)</u>	<u>(904,861)</u>	<u>(741,722)</u>	<u>(1,707,679)</u>	
	<u>39,786,570</u>	<u>31,137,144</u>	<u>28,050,236</u>	<u>2,749,213</u>	<u>3,115,342</u>	
	-	-	-	-	-	
\$	<u>(11,656,217)</u>	<u>\$ 4,454,769</u>	<u>\$ (1,013,001)</u>	<u>\$ (10,390,392)</u>	<u>\$ 8,707,929</u>	
	13.7%	17.3%	17.7%	18.7%	18.8%	

**CITY OF MCKINNEY, TEXAS
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 5

Fiscal Year	Residential Property	Commercial Property	Lots, Land and Farms Property	Less: Tax-Exempt Property	Total Taxable Assessed Value^a	Total Direct Tax Rate
2003	3,366,376,924	1,442,807,072	1,004,229,613	770,583,751	5,042,829,858	0.59800
2004	3,843,041,571	1,492,929,792	1,048,331,414	812,651,649	5,571,651,128	0.59800
2005	4,362,694,614	1,621,362,851	1,107,370,436	844,204,688	6,247,223,213	0.59800
2006	4,968,430,438	1,930,626,833	1,148,679,747	959,983,795	7,087,753,223	0.59300
2007	5,795,848,917	2,118,454,275	1,384,973,885	1,079,023,763	8,220,253,314	0.58800
2008	6,791,710,804	2,484,651,531	1,625,116,907	1,252,624,142	9,648,855,100	0.58800
2009	7,403,164,789	2,870,687,709	1,579,799,525	1,263,350,246	10,590,301,777	0.58550
2010	7,626,499,353	2,929,634,966	1,335,349,886	1,113,059,042	10,778,425,163	0.58550
2011	7,727,106,308	2,890,958,467	1,236,326,385	1,069,689,217	10,784,701,943	0.58550
2012	7,987,599,999	2,824,853,811	1,172,661,685	1,053,445,216	10,931,670,279	0.58550

Source: City of McKinney Budget Document
 Collin Central Appraisal District

Note: Property in Collin County is reassessed once every five years on average.
 The County assesses property at 100% of it's market value. Tax rates are per \$100 of assessed value.

^a Includes adjustments to certified rolls
 Fiscal Year reports Certified Tax Report from prior calendar year

**CITY OF MCKINNEY, TEXAS
 DIRECT AND OVERLAPPING PROPERTY TAX RATES (PER \$100 OF ASSESSED VALUE)
 LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 6

Fiscal Year	City Direct Rates			Overlapping Rates							
	Operating/ General Rate	General Obligation Debt Service	Total Direct	McKinney Independent School District	Allen Independent School District	Frisco Independent School District	Melissa Independent School District	Prosper Independent School District	Love Joy Independent School District	Collin County	Collin College District
2003	0.43445	0.16355	0.59800	1.94500	1.80820	1.49750	1.69562	1.76096	1.60000	0.25000	0.09195
2004	0.42145	0.17655	0.59800	1.98000	1.87230	1.51750	1.87887	1.81990	1.70300	0.25000	0.09193
2005	0.44132	0.15168	0.59300	2.00000	1.93335	1.55750	1.99000	1.95150	1.82340	0.25000	0.09065
2006	0.40900	0.17900	0.58800	2.00000	1.91246	1.63000	1.91000	1.97531	1.82340	0.25000	0.08942
2007	0.41817	0.16983	0.58800	1.84100	1.77510	1.58000	1.78000	1.80000	1.69340	0.24500	0.08768
2008	0.41923	0.16627	0.58550	1.51700	1.47030	1.35000	1.53500	1.67000	1.47630	0.24500	0.08698
2009	0.40650	0.17900	0.58550	1.51700	1.47030	1.37000	1.54000	1.67000	1.51500	0.24250	0.08649
2010	0.40650	0.17900	0.58550	1.54000	1.54000	1.39000	1.54000	1.64000	1.53500	0.24250	0.08630
2011	0.40650	0.17900	0.58550	1.52800	1.54000	1.39000	1.54000	1.63000	1.53500	0.24000	0.08630
2012	0.41220	0.17330	0.58550	1.54000	1.67000	1.46000	1.54000	1.67000	1.53500	0.24000	0.86299

Source: Collin Central Appraisal District

**CITY OF MCKINNEY, TEXAS
PRINCIPAL TAX PAYERS
CURRENT YEAR AND TEN YEARS AGO (UNAUDITED)**

TABLE 7

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value ^a	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value ^b
Encore Wire Limited	\$ 115,725,045	1	1.06%	\$ 23,018,259	8	0.46%
Raytheon TI Systems Inc	73,951,875	2	0.68%	30,730,597	4	0.61%
Columbia Medical Center of McKinney	56,102,335	3	0.51%	—		—
Oncor Electric Delivery Co	50,639,060	4	0.46%	45,914,542	1	0.91%
McKinney Towne Crossing LP	40,660,462	5	0.37%	—		—
Blockbuster Inc	38,497,782	6	0.35%	—		—
Covington Cameron Acquisition LLC	37,640,000	7	0.34%	—		—
Saxon Woods Associates LP	33,590,000	8	0.31%	28,153,400	7	0.56%
Western Rim Investors	33,409,800	9	0.31%	—		—
TMK Properties LP	33,200,000	10	0.30%	—		—
Cameron Crossings Investors, LTD	—		—	34,336,917	2	0.68%
BV Realty Partners LP	—		—	34,205,653	3	0.68%
HCA / McKinney Hospital	—		—	28,796,542	5	0.57%
The Greens at McKinney	—		—	28,250,000	6	0.56%
DR Horton - Texas, LTD	—		—	22,838,591	9	0.45%
Westerra Stonebridge, LP	—		—	21,999,240	10	0.44%
Total	\$ 513,416,359		4.70%	\$ 298,243,741		5.91%

Source: Collin County Tax Assessor and Collector

Notes: ^a Taxpayers are assessed on January 1, 2011 (2010 tax year) for the 2012 fiscal year.

^b Taxpayers are assessed on January 1, 2002 (2001 tax year) for the 2003 fiscal year.

**CITY OF MCKINNEY, TEXAS
AD VALOREM TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 8

Fiscal Year Ended September 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of levy		Amount	Percentage of levy
2003	30,525,136	29,844,231	97.77%	656,512	30,500,743	99.92%
2004	34,011,588	33,452,893	98.36%	532,885	33,985,778	99.92%
2005	37,763,635	37,039,384	98.08%	679,933	37,719,317	99.88%
2006	42,686,986	41,731,410	97.76%	889,079	42,620,489	99.84%
2007	48,607,924	47,974,805	98.70%	526,532	48,501,337	99.78%
2008	56,776,558	56,166,777	98.93%	472,448	56,639,225	99.76%
2009	62,280,815	61,576,965	98.87%	528,146	62,105,110	99.72%
2010	62,486,523	61,922,528	99.10%	373,381	62,295,908	99.69%
2011	62,492,355	61,901,919	99.06%	366,646	62,268,566	99.64%
2012	63,379,911	63,014,520	99.42%	1,144	63,015,664	99.43%

Source: Collin County Tax Assessor and Collector

**CITY OF MCKINNEY, TEXAS
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 9

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Certificates of Obligation	Other Obligations	Water and Sewer Revenue Bonds	Other Obligations			
2003	57,471,192	19,755,001	5,838,436	31,180,000	(131,014)	114,113,615	5.46%	1,540
2004	72,935,000	23,445,001	2,666,186	38,180,000	(174,141)	137,052,046	5.66%	1,596
2005	81,845,000	39,330,000	2,166,370	49,730,000	195,172	173,266,542	6.49%	1,829
2006	111,165,000	40,900,000	2,355,673	63,900,000	(140,832)	218,179,841	7.38%	2,081
2007	127,240,000	38,675,000	2,785,323	67,175,000	(81,853)	235,793,470	7.26%	2,047
2008	145,515,000	49,315,000	3,364,894	75,085,000	129,450	273,409,344	8.02%	2,260
2009	146,080,000	67,115,000	3,807,225	81,025,000	148,043	298,175,268	8.67%	2,442
2010	153,030,000	74,675,000	4,828,737	82,975,000	317,087	315,825,824	8.85%	2,496
2011	145,415,000	72,310,000	4,931,501	78,635,000	397,025	301,688,526	7.25%	2,258
2012	140,685,000	64,990,000	9,127,211	74,040,000	751,312	289,593,523	6.73%	2,128

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^aSee Table 14 for personal income and population data.

**CITY OF MCKINNEY, TEXAS
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 10

General Bonded Debt Outstanding					
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Total	Percentage of Actual Taxable Value of Property^a	Per Capita^b
2003	57,471,192	19,755,001	77,226,193	1.53%	1,042
2004	72,935,000	23,445,001	96,380,001	1.73%	1,122
2005	81,845,000	39,330,000	121,175,000	1.94%	1,279
2006	111,165,000	40,900,000	152,065,000	2.15%	1,450
2007	127,240,000	38,675,000	165,915,000	2.02%	1,440
2008	145,515,000	49,315,000	194,830,000	2.02%	1,610
2009	146,080,000	67,115,000	213,195,000	2.01%	1,746
2010	153,030,000	74,675,000	227,705,000	2.11%	1,799
2011	145,415,000	72,310,000	217,725,000	2.02%	1,629
2012	140,685,000	64,990,000	205,675,000	1.88%	1,512

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^aSee Table 5 for property value data.

^bSee Table 14 for population data.

**CITY OF MCKINNEY, TEXAS
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 11

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tax Rate Limit	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50
Current Tax Rate	0.5980	0.5980	0.5930	0.5880	0.5880	0.5855	0.5855	0.5855	0.5855	0.5855
Available Tax Rate	<u>\$ 1.90</u>	<u>\$ 1.90</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>	<u>\$ 1.91</u>

Note: The City Charter of the City of McKinney, Texas does not provide for a debt limit. Under provisions of state law, the maximum tax rate is limited to \$2.50 per \$100 assessed valuation. No direct bond debt limitation is imposed on the City under current state law or the City's Charter.

**CITY OF MCKINNEY, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
SEPTEMBER 30, 2012 (UNAUDITED)**

TABLE 12

<u>Governmental Unit</u>	<u>Gross Bonded Debt</u>	<u>Estimated Percentage Applicable^a</u>	<u>McKinney Share of Overlapping Debt</u>
Debt repaid with property taxes			
McKinney ISD	\$ 447,520,000	90.948%	\$ 407,011,210
Collin College District	40,467,768	14.412%	5,832,047
Collin County	393,210,000	14.619%	57,481,498
Allen ISD	502,018,036	4.239%	21,282,807
Frisco ISD	1,295,493,456	13.218%	171,237,870
Melissa ISD	62,570,244	0.001%	668
Prosper ISD	235,135,080	18.506%	43,514,925
Lovejoy ISD	137,105,472	0.534%	732,284
Subtotal, overlapping debt	<u>\$3,113,520,056</u>		<u>\$ 707,093,309</u>
City of McKinney (direct debt)	217,725,000	100.00%	<u>\$ 217,725,000</u>
Total direct and overlapping debt			<u><u>\$ 924,818,309</u></u>

Source: Assessed value data used to estimate applicable percentages provided by Collin County Central Appraisal District. Debt outstanding data provided by each governmental unit.

Note: ^a The percentage of overlapping debt applicable is estimated using taxable assessed property values (before freeze loss). Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

**CITY OF MCKINNEY, TEXAS
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 13

Water and Sewer System Revenue Bonds						
Fiscal Year	Total Revenues^a	Less:		Net Available Revenue	Annual Requirement^c	Times Coverage
		Operating Expenses^b				
2003	23,321,351	15,626,123		7,695,228	2,453,415	3.14
2004	27,857,953	18,584,309		9,273,644	2,955,368	3.14
2005	32,446,505	20,993,205		11,453,300	3,794,613	3.02
2006	39,436,390	23,240,689		16,195,701	4,696,231	3.45
2007	38,406,298	26,743,067		11,663,231	4,820,870	2.42
2008	39,935,862	29,237,087		10,698,775	5,353,390	2.00
2009	46,584,797	32,157,583		14,427,214	5,744,594	2.51
2010	48,990,765	34,215,781		14,774,984	5,797,296	2.55
2011	57,912,585	35,956,535		21,956,050	5,402,317	4.06
2012	55,403,332	37,820,688		17,582,644	4,979,317	3.53

Note: ^aIncludes operating and investment income.

^bIncludes operating expenses minus depreciation.

^cIncludes Principal and Interest (represents average annual requirement)

**CITY OF MCKINNEY, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS (UNAUDITED)**

TABLE 14

Year	Estimated Population^a	Personal Income	Per Capita Personal Income^b	Median Age^b	Median Household Income^b	School Enrollment^c	Unemployment Rate^d
2003	74,108	2,088,733,980	28,185	30.6	63,366	16,513	10.60%
2004	85,865	2,420,105,025	28,185	30.6	63,366	17,926	8.40%
2005	94,733	2,670,049,605	28,185	30.6	63,366	19,603	4.40%
2006	104,853	2,955,281,805	28,185	30.6	63,366	21,161	4.40%
2007	115,198	3,246,855,630	28,185	30.6	63,366	22,307	4.10%
2008	120,978	3,409,764,930	28,185	30.6	63,366	23,310	4.70%
2009	122,083	3,440,909,355	28,185	30.6	63,366	23,889	7.40%
2010	126,548	3,566,755,380	28,185	30.6	63,366	24,346	8.00%
2011	133,619	4,158,624,137	31,123	31.7	77,405	24,730	8.10%
2012	136,067	4,304,479,545	31,635	32.0	78,256	24,461	5.90%

Sources: ^a Source Data: US Census Bureau

(data compiled every 10 years from 2003-2010 and annually beginning 2011)

^b Personal income calculated by multiplying estimated population by per capita personal income.

^c Source Data: McKinney Independent School District

^d Source Data: Texas Workforce Commission for month ending September

**CITY OF MCKINNEY, TEXAS
PRINCIPAL EMPLOYERS
CURRENT AND TEN YEARS AGO (UNAUDITED)**

TABLE 15

Employer	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Raytheon TI Systems Inc	3,700	1	5.80%	2,000	1	7.61%
McKinney Independent School District	2,582	2	4.05%	1,687	2	6.42%
Collin County	1,659	3	2.60%	1,370	4	5.21%
McKinney Medical Center	1,105	4	1.73%	750	5	2.85%
Lattimore Materials	1,100	5	1.73%	—	—	—
City of McKinney	835	6	1.31%	498	8	1.89%
Encore Wire	800	7	1.25%	600	6	2.28%
Torchmark / United American Ins.	800	8	1.25%	—	—	—
Watson & Chalin	800	9	1.25%	—	—	—
Collin College	622	10	0.98%	393	9	1.49%
Blockbuster Video Inc	—	—	—	1,415	3	5.38%
United American Insurance	—	—	—	550	7	2.09%
Timber Blind Manufacturing	—	—	—	329	10	1.25%
Total	14,003		21.96%	9,592		36.48%

Source: Top ten employers and employee count provided by McKinney Chamber of Commerce. Total City Employment provided by Texas Workforce Commission (TWC).

CITY OF MCKINNEY, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS (UNAUDITED)

TABLE 16

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	54.0	57.0	62.5	71.0	80.5	88.5	90.5	104.5	103.0	95.5
Police	120.5	128.5	142.0	157.0	173.0	192.0	203.0	208.0	207.0	206.0
Fire	105.2	106.2	111.2	129.2	147.2	166.2	167.2	167.2	167.7	164.5
Libraries	29.0	29.0	28.0	30.1	31.1	31.1	38.7	37.7	35.3	32.8
Development	74.1	81.6	81.1	95.1	109.1	114.6	112.6	105.1	93.6	81.1
Parks and recreation	57.0	62.0	64.0	74.5	81.5	83.5	84.5	81.5	84.0	85.0
Public works	36.3	38.8	43.8	56.3	57.8	67.0	60.7	61.7	61.7	61.7
Water/wastewater	57.0	58.0	62.0	64.0	69.0	77.3	79.7	77.7	74.7	74.7
Surface water drainage	-	1.0	1.0	-	-	-	11.0	11.0	11.0	11.0
Solid Waste	6.0	5.5	5.5	3.5	4.0	9.0	10.0	12.0	12.0	12.0
Total^a	<u>539.1</u>	<u>567.6</u>	<u>601.1</u>	<u>680.7</u>	<u>753.2</u>	<u>829.2</u>	<u>857.8</u>	<u>866.4</u>	<u>850.0</u>	<u>824.3</u>

Source: City of McKinney Budget Book

^a Excludes: Collin County Airport (CCADC), Economic Development (MEDC), Community Development (MCDC), and Visitor's Bureau (MCVB) employees

**CITY OF MCKINNEY, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS (UNAUDITED)**

<u>Function/Program</u>	<u>Fiscal Year</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Police			
Number of police officers	104	113	124
Number of violations (citations) ^a	11,714	16,412	15,367
Fire			
Number of fire fighters	94	94	94
Number of fire suppression runs	2,177	2,200	2,300
Number of EMS runs	3,731	4,056	4,400
Development Services			
Construction permits issued ^b	8,875	8,875	8,945
Estimated valuation ^b	\$507,567,356	\$507,567,356	\$713,222,782
Public Works			
Streets paved (miles)	11	9	10
Street signs repaired/installed	1,200	712	1,200
Parks and Recreation			
Park land and municipal acreage maintained	948	960	1,000
Rounds of golf	32,383	36,164	36,592
Library			
Volumes in collection ^c	80,379	100,894	112,612
Annual circulation	423,600	509,341	600,147
Water and Wastewater			
Number of water customers	25,923	29,073	31,723
Average daily water consumption (millions of gallons)	17.7	17.6	18.2
Maximum storage capacity (million of gallons)	14.0	14.0	20.0
Solid Waste			
Recyclables collected (tons)	3,400	3,951	4,543
Solid waste collected (tons)	113,900	102,657	113,251

Source: City Departments

Note:

- ^a Basis for issued citation reconciliation adjusted in FY11
- ^b Includes residential, commercial, and miscellaneous permits (i.e. pools, fences)
- ^c Includes books and media.

TABLE 17

Fiscal Year						
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
136	149	158	161	161	161	161
23,779	22,413	27,804	30,623	33,729	18,754 ^a	17,366
130	149	150	151	151	151	153
2,550	2,750	2,950	3,109	3,239	3,598	2,883
4,923	5,500	6,100	6,800	7,100	6,180	6,936
11,296	6,970	5,539	4,154	3,816	4,316	6,461
\$785,799,209	\$601,907,826	\$480,774,997	\$772,318,950	\$533,916,212	\$469,799,412	\$722,830,462
8	8	8	9	9	11	15
1,872	1,876	2,000	2,500	2,500	1,671	1,260
1,100	1,144	1,566	1,566	1,566	1,708	1,834
37,500	35,000	35,878	36,000	35,000	33,064	34,400
123,828	136,054	149,406	177,800	210,000	219,704	227,585
627,664	630,000	652,675	660,000	900,000	1,095,739	1,179,539
34,901	38,200	39,590	40,498	41,853	42,946	44,644
23.5	19.3	23.2	23.0	22.7	28.5	28.5
22.0	42.0	42.0	44.0	44.0	44.0	44.0
10,534	15,120	17,145	17,670	13,438	16,350	14,880
119,995	123,150	129,310	135,026	120,978	114,937	112,794

**CITY OF MCKINNEY, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS (UNAUDITED)**

TABLE 18

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units ^a	24	35	35	46	46	65	82	110	120	120
Motorcycle Units	3	3	8	7	8	11	9	8	8	8
Skywatch Towers	-	-	-	-	-	-	-	1	2	2
Fire										
Stations	5	5	5	5	6	6	7	8	8	8
Public Works										
Streets-Paved (miles)	453.0	453.0	453.0	594.0	623.0	625.0	625.0	706.0	723.0	723.0
Streets-Graded (miles)	39.0	39.0	39.0	39.0	39.0	39.0	39.0	16.0	16.0	16.0
Streets-Unimproved (miles)	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Alleys (miles)	163.0	163.0	163.0	80.0	80.0	80.0	80.0	78.0	78.0	78.0
Street lights (Including US 75)	3,750	4,038	4,200	4,612	4,662	4,760	4,760	4,760	5,901	5,901
Parks and Recreation										
Park Acreage	1,000	1,047	1,200	1,303	1,674	1,862	2,025	2,025	2,025	2,082
Public Parks	25	28	28	31	32	34	36	36	36	39
Municipal Golf Course ^b	1	1	1	1	1	1	1	1	1	1
Community/Recreation Centers	3	3	3	3	3	3	3	3	3	3
Public Swimming Pools	3	3	3	3	3	3	3	3	3	3
Baseball/Softball Diamonds	22	22	27	27	27	27	27	27	27	27
Tennis Courts	2	2	2	2	2	2	2	2	2	13
Soccer Fields (regulation size)	9	9	22	22	22	22	22	22	22	22
Disc Golf Course	1	1	1	1	1	1	1	1	2	2
Ice Rink ^b	-	-	-	-	-	-	-	1	1	1
Library	1	1	1	1	1	1	2	2	2	2
Water and Wastewater										
Storage capacity (million gallons)	14.0	14.0	20.0	22.0	42.0	42.0	44.0	44.0	44.0	44.0
Water Mains (miles)	382.0	405.0	534.0	624.0	680.0	737.0	765.0	770.0	787.0	806.0
Fire Hydrants	4,020	4,621	4,879	5,525	6,100	6,529	7,388	6,688	7,007	7,473
Storm Sewer (miles)	154.0	154.0	203.0	203.0	213.0	257.0	257.0	257.0	266.0	396.0
Sanitary Sewers (miles)	347.0	347.0	459.0	502.0	520.0	582.0	605.0	610.0	630.0	620.0
Airport										
Dedicated airport property (acres)	581	581	581	661	661	661	661	745	745	745
Runway length (ft) x width (ft)	7,001x100	7,001x100	7,001x100	7,001x100	7,001x100	7,001x100	7,001x100	7,001x100	7,001x100	7,002x150

Source: City Departments

Note: ^a Per Police Department

^b City owned, privately operated



www.mckinneytexas.org