

**CITY OF RICHWOOD**  
RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2011

**KENNEMER, MASTERS & LUNSFORD, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**8 WEST WAY COURT**  
**LAKE JACKSON, TEXAS 77566**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**CITY OF RICHWOOD**

Richwood, Texas

*Annual Financial Report  
For the Year Ended September 30, 2011*

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	7-8
Management's Discussion and Analysis .....	9-19
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	22-23
Statement of Activities .....	24-25
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	26
Reconciliation of the Governmental Funds Balance Sheet to the Governmental Activities Statement of Net Assets .....	27
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities .....	29
Statement of Net Assets - Proprietary Fund .....	30-29
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund .....	32
Statement of Cash Flows - Proprietary Fund.....	33-34
Notes to the Financial Statements.....	35-61
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	64
Texas Municipal Retirement System Schedule of Funding Progress - Last Three Fiscal Years.....	65
<b>Individual Fund Schedules:</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund .....	68
Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual - Proprietary Fund .....	69

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## **FINANCIAL SECTION**

***THIS PAGE LEFT BLANK INTENTIONALLY.***

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS  
Limited Liability Company

Lake Jackson Office:  
8 West Way Court  
Lake Jackson, Texas 77566  
(979) 297-4075 Fax: (979) 297-6648  
(800) 399-4075

Houston Office:  
10260 Westheimer, Suite 410  
Houston, Texas 77042  
(281) 974-3416 Fax: (281) 974-3764

## Independent Auditor's Report

February 14, 2012

To The Honorable Mayor and  
Members of City Council  
City of Richwood  
Richwood, Texas

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, Texas as of September 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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.

[www.kmkwllc.com](http://www.kmkwllc.com) – Email: [kmkw@kmkwllc.com](mailto:kmkw@kmkwllc.com)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the Texas Municipal Retirement System Schedule of Funding Progress on pages 9 through 19 and 64 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richwood's basic financial statements as a whole. The individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kennemer, Masters & Hunzford, LLC*

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

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

**Financial Highlights**

- The assets of the City of Richwood exceeded its liabilities at the close of the most recent fiscal year by \$ 13,932,581 (net assets). Of this amount, \$ 1,499,732 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net assets decreased by \$ 134,753.
- As of the close of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 1,194,242. 64.27% of this total amount, \$ 767,505 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 767,505 or 44.05% of the total general fund expenditures.

**Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and parks and recreation. The *business-type activities* of the City include Water and Sewer and Sanitation operations.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

The government-wide financial statements can be found on pages 22 through 25 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, 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 can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains three (3) 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, Debt Service, and Special Revenue funds. The General and Debt Service funds are considered to be major funds. The governmental fund financial statements can be found on pages 26 through 29 of this report.

- **Proprietary Funds.** The City maintains one category of *proprietary funds*-Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 30 through 34 of this report.

## **CITY OF RICHWOOD, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2011*

**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 35 through 61 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 64 and 65 of this report.

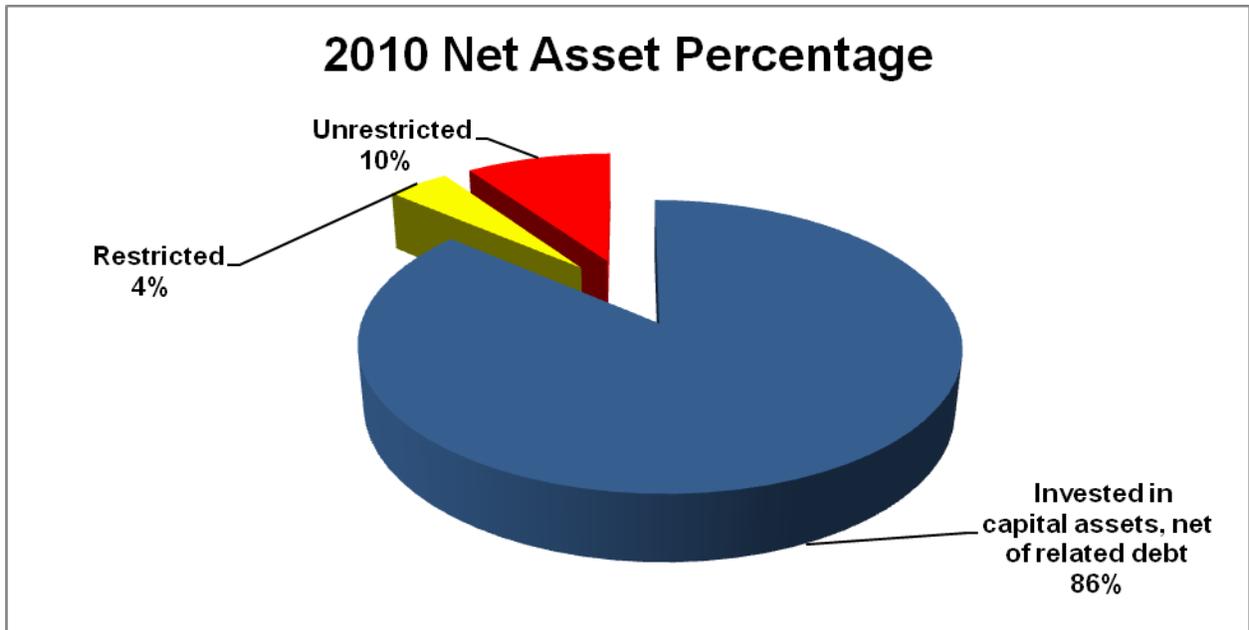
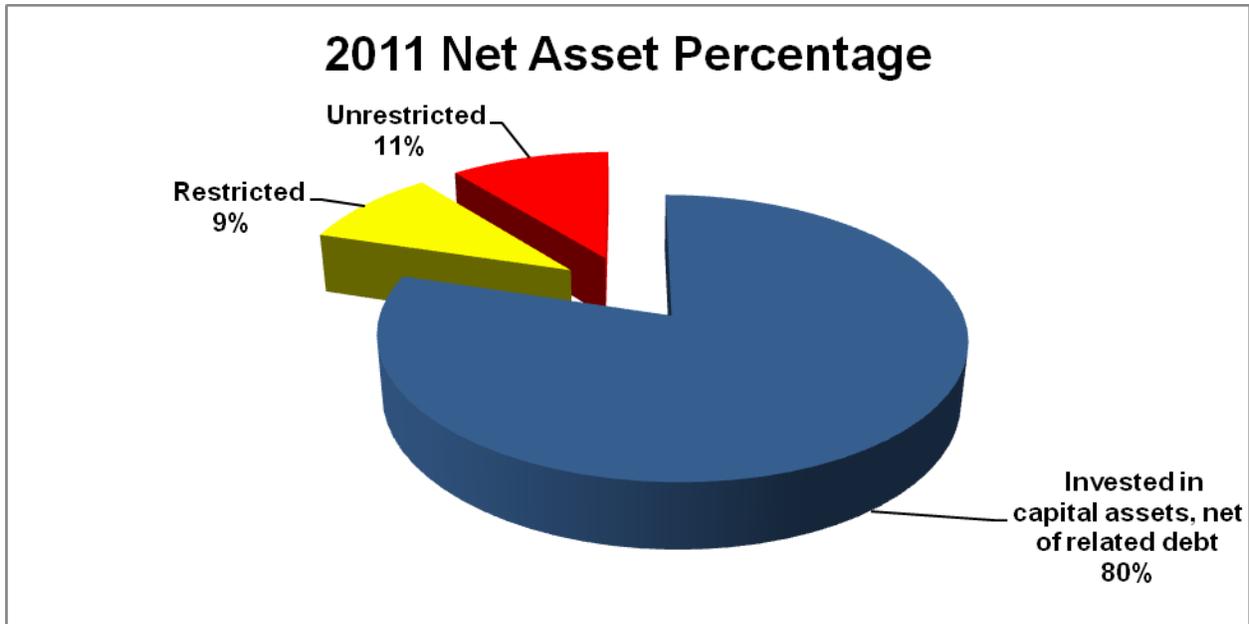
The individual fund schedules are presented following the required supplementary information. These individual statements and schedules and other schedules can be found on pages 68 through 69 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Richwood, assets exceeded liabilities by \$ 13,932,581 as of September 30, 2011.

The largest portion of the City's net assets \$ 11,110,714 (79.75%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets of \$ 1,322,135 (9.49%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 1,499,732 (10.76%) may be used to meet the government's ongoing obligations to citizens and creditors.



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

**CITY OF RICHWOOD'S STATEMENT OF NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 1,367,266	\$ 1,173,042	\$ 1,709,951	\$ 1,004,972	\$ 3,077,217	\$ 2,178,014
Capital assets	<u>7,407,339</u>	<u>7,570,157</u>	<u>5,863,644</u>	<u>6,013,067</u>	<u>13,270,983</u>	<u>13,583,224</u>
Total assets	<u>8,774,605</u>	<u>8,743,199</u>	<u>7,573,595</u>	<u>7,018,039</u>	<u>16,348,200</u>	<u>15,761,238</u>
Other liabilities	73,136	62,157	256,510	233,449	329,646	295,606
Long-term liabilities	<u>745,077</u>	<u>751,848</u>	<u>1,340,896</u>	<u>646,450</u>	<u>2,085,973</u>	<u>1,398,298</u>
Total liabilities	<u>818,213</u>	<u>814,005</u>	<u>1,597,406</u>	<u>879,899</u>	<u>2,415,619</u>	<u>1,693,904</u>
Net Assets:						
Invested in capital assets, net of related debt	6,662,262	6,818,309	4,448,452	5,319,842	11,110,714	12,138,151
Restricted	223,603	216,797	1,098,532	360,282	1,322,135	577,079
Unrestricted	<u>1,070,527</u>	<u>894,088</u>	<u>429,205</u>	<u>458,016</u>	<u>1,499,732</u>	<u>1,352,104</u>
Total net assets	<u>\$ 7,956,392</u>	<u>\$ 7,929,194</u>	<u>\$ 5,976,189</u>	<u>\$ 6,138,140</u>	<u>\$ 13,932,581</u>	<u>\$ 14,067,334</u>

As of September 30, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories-governmental and business-type activities.

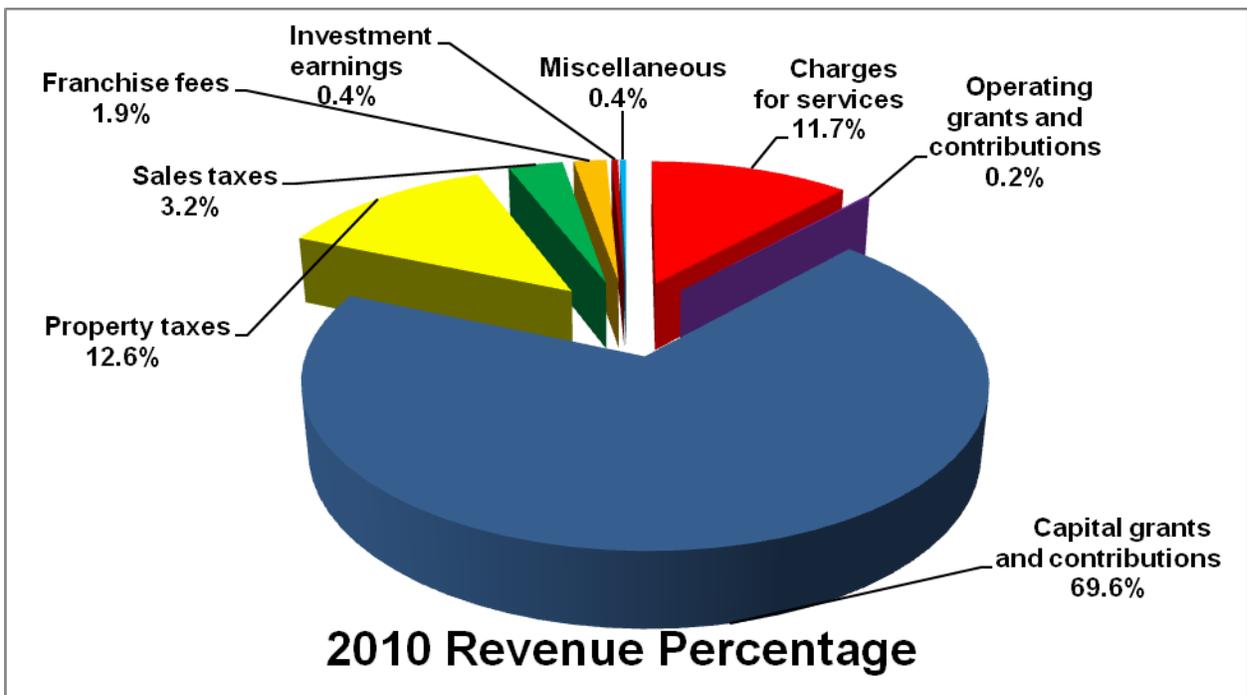
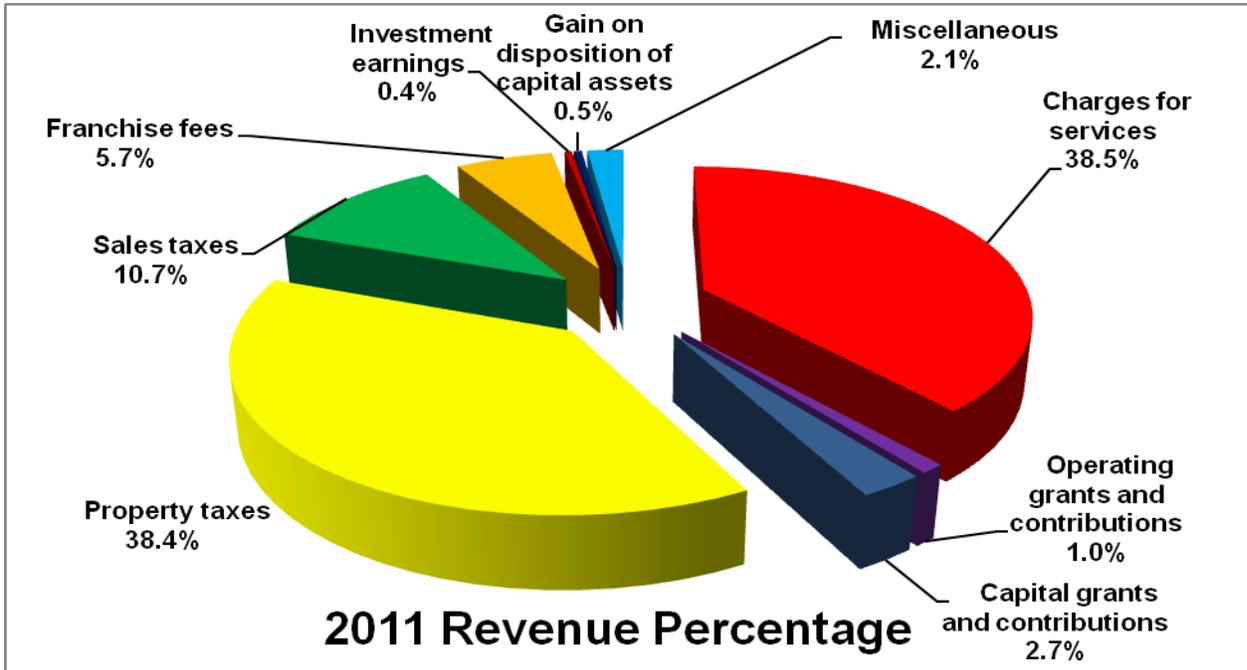
**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2011. Governmental activities increased the City of Richwood's net assets by \$ 27,198. Business-type activities decreased the City's net assets by \$ 161,951.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

**CITY OF RICHWOOD'S STATEMENTS OF ACTIVITY**

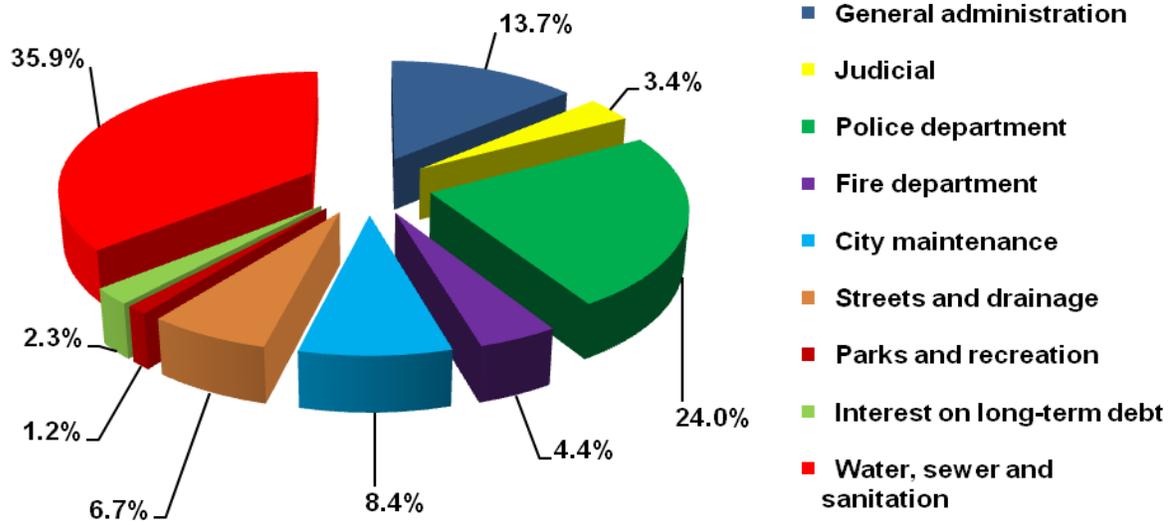
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for services	\$ 257,844	\$ 244,723	\$ 889,554	\$ 801,240	\$ 1,147,398	\$ 1,045,963
Operating grants and contributions	29,729	13,786			29,729	13,786
Capital grants and contributions	28,238	4,800,000	50,863	1,410,970	79,101	6,210,970
General Revenues:						
Taxes:						
Property taxes	1,140,559	1,128,754			1,140,559	1,128,754
Sales taxes	318,518	286,238			318,518	286,238
Franchise fees	168,586	171,829			168,586	171,829
Investment earnings	7,551	24,247	5,025	9,621	12,576	33,868
Gain on disposition of capital assets	13,750				13,750	
Miscellaneous	62,681	34,303			62,681	34,303
Total revenues	<u>2,027,456</u>	<u>6,703,880</u>	<u>945,442</u>	<u>2,221,831</u>	<u>2,972,898</u>	<u>8,925,711</u>
Expenses:						
General administration	419,366	344,495			419,366	344,495
Judicial	103,346	16,217			103,346	16,217
Police department	741,466	780,600			741,466	780,600
Fire department	136,668	120,456			136,668	120,456
City maintenance	268,502	263,286			268,502	263,286
Streets and drainage	207,155	167,529			207,155	167,529
Parks and recreation	60,539	77,088			60,539	77,088
Interest on long-term debt	69,228	44,384			69,228	44,384
Water, sewer & sanitation			1,101,381	1,010,597	1,101,381	1,010,597
Total expenses	<u>2,006,270</u>	<u>1,814,055</u>	<u>1,101,381</u>	<u>1,010,597</u>	<u>3,107,651</u>	<u>2,824,652</u>
Increase (decrease) in net assets before transfers	\$ 21,186	\$ 4,889,825	\$ ( 155,939)	\$ 1,211,234	\$ ( 134,753)	\$ 6,101,059
Transfers	<u>6,012</u>	<u>( 90,000)</u>	<u>( 6,012)</u>	<u>90,000</u>	<u>-0-</u>	<u>-0-</u>
Increases (decreases) in Net assets	27,198	4,799,825	( 161,951)	1,301,234	( 134,753)	6,101,059
Net assets – beginning	<u>7,929,194</u>	<u>3,129,369</u>	<u>6,138,140</u>	<u>4,836,906</u>	<u>14,067,334</u>	<u>7,966,275</u>
Net assets – ending	<u>\$ 7,956,392</u>	<u>\$ 7,929,194</u>	<u>\$ 5,976,189</u>	<u>\$ 6,138,140</u>	<u>\$ 13,932,581</u>	<u>\$ 14,067,334</u>

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

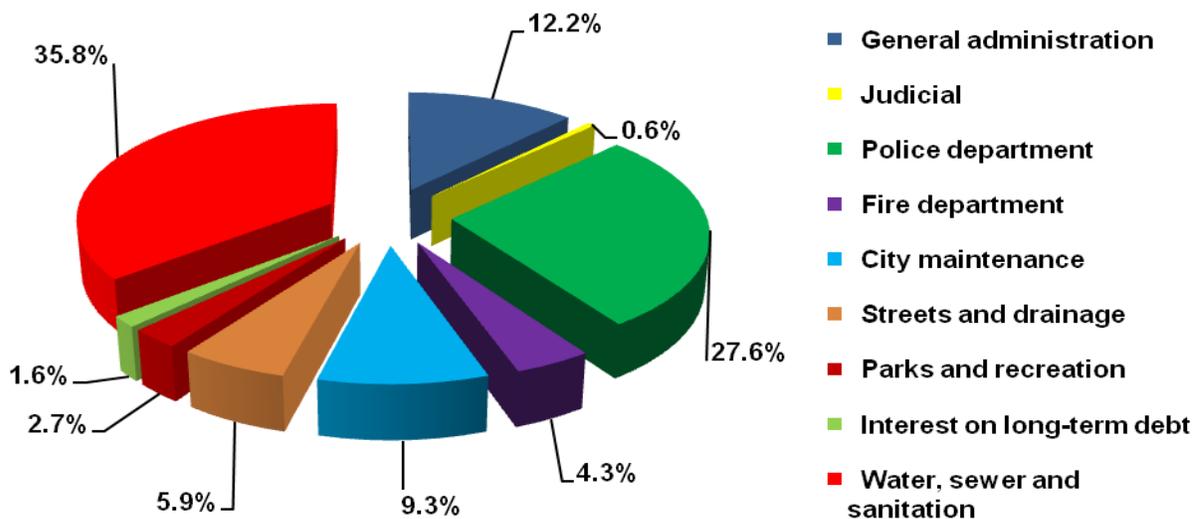


**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

### 2011 Percentage Expenses by Function



### 2010 Percentage Expenses by Function



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

**Financial Analysis of the City's Funds**

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

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

As of the end of the current fiscal year, the City of Richwood's governmental funds reported ending balances of \$1,194,242. \$ 767,505 (64.27%) of this total amount constitutes unassigned fund balance. The remainder of the fund balance is restricted or committed to indicate that it is not available for new spending because it is restricted or committed 1) \$ 114,192 for relocation of water and sewer lines, 2) \$ 859 for seizure and forfeiture, 3) \$ 20,020 for court security and technology, 4) \$ 61,476 for debt service, 5) \$ 24,270 for street beautification, 6) \$ 15,063 for insurance, 7) \$ 103,019 for capital improvement, 8) \$ 78,283 for equipment replacement, and 9) \$ 9,555 for crime control and prevention.

The General Fund balance increased by \$ 88,007; the Debt Service Fund balance increased by \$ 17,248, and the Special Revenue Fund balance increased by \$ 24,270.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at September 30, 2011 amounted to \$ 429,205. Total net assets decreased \$ 161,951.

**General Fund Budgetary Highlights.** The City's overall budgeted expenditures decreased during the year by 1.5% or \$ 24,700. Actual expenditures exceeded budgetary estimates by \$ 121,224 which mainly resulted from underestimating of capital outlay and general administration expenditures.

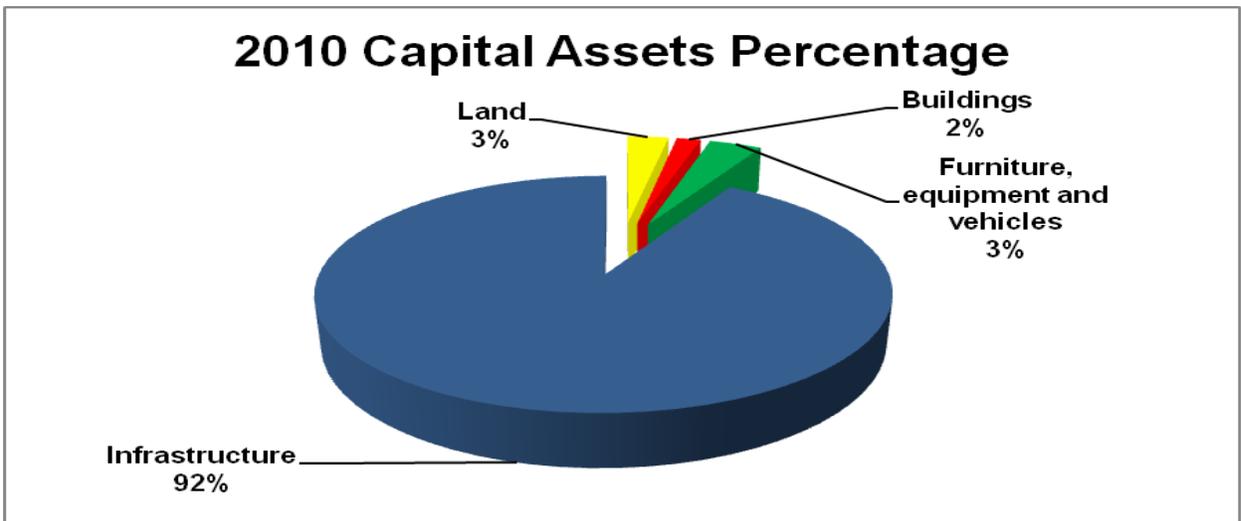
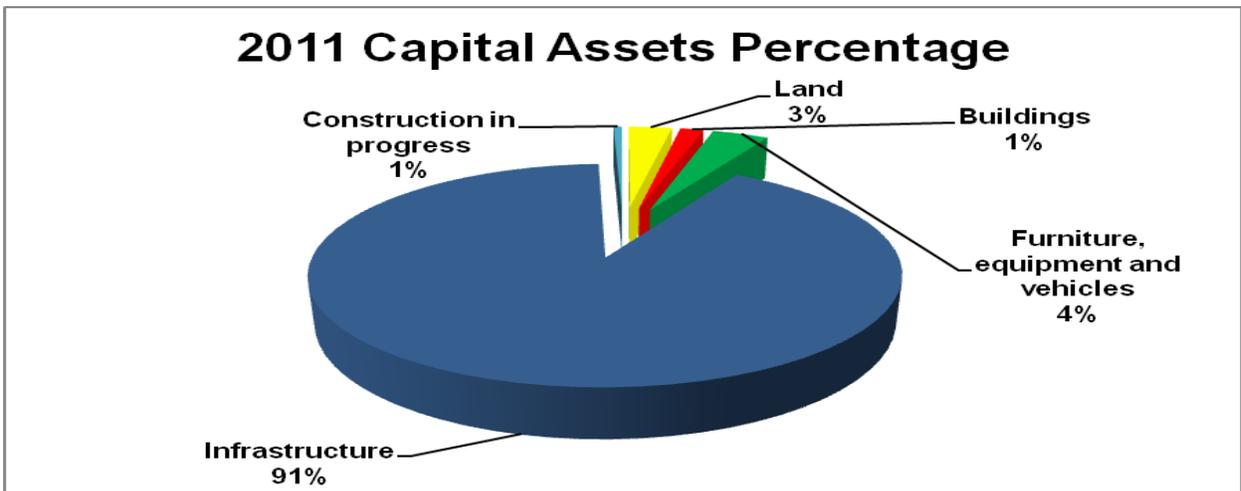
**Capital Assets**

The City of Richwood's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$ 13,246,703 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, construction in progress, and infrastructure. During the year ended September 30, 2011, the City received contributed capital in the amount of \$ 28,238 from Fire Department's, which is reported within governmental activities.

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

**Capital Assets at Year-end  
 Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Land	\$ 266,940	\$ 266,940	\$ 122,580	\$ 122,580	\$ 389,520	\$ 389,520
Buildings	103,761	119,326	104,488	109,082	208,249	228,408
Furniture, equipment & vehicles	519,403	475,575	10,972	22,079	530,375	497,654
Infrastructure	6,517,235	6,708,316	5,549,079	5,759,326	12,066,314	12,467,642
Construction in progress			76,525		76,525	-0-
Total assets	<u>\$ 7,407,339</u>	<u>\$ 7,570,157</u>	<u>\$ 5,863,644</u>	<u>\$ 6,013,067</u>	<u>\$ 13,270,983</u>	<u>\$ 13,583,224</u>



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2011*

Additional information on the City of Richwood's capital assets can be found in Note 6 on pages 50 through 51 of this report.

**Debt Administration**

At the end of the current fiscal year, the City of Richwood had a total certificates of obligation payable and revenue bonds payable of \$ 2,060,338. Of this amount, \$ 1,905,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. \$ 136,000 represents bonds secured solely by water and sewer revenues. The remaining \$ 19,338 is accrued interest. Further, the City did not have obligations under capital lease.

**Outstanding Debt at Year End  
 Bonds Payable**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010
Certificates of						
Obligation bonds	\$ 740,000	\$ 750,000	\$ 1,165,000	\$ 415,000	\$ 1,905,000	\$ 1,165,000
Revenue bonds			136,000	151,000	136,000	151,000
Accrued interest	<u>5,077</u>	<u>1,848</u>	<u>14,261</u>	<u>6,592</u>	<u>19,338</u>	<u>8,440</u>
Total	<u>\$ 745,077</u>	<u>\$ 751,848</u>	<u>\$ 1,315,261</u>	<u>\$ 572,592</u>	<u>\$ 2,060,338</u>	<u>\$ 1,324,440</u>

All of the outstanding Bonds of the City payable from its limited taxes are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City of Richwood's long term debt can be found in Note 7 on pages 51 through 54 of this report.

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

In the 2011-2012 Budget, General fund revenues are budgeted to increase by 7.14% from 2010-2011 budget year due to increases in general property taxes and municipal court fees.

Certified assessed valuations increased 2.5% over the preceding year. Property taxes will increase approximately 2.1%.

The Enterprise Fund's 2011-2012 budgeted expenditures are to increase by 2.1% over the preceding year's budget. Water and Sewer rates for the 2011-2012 budget year will increase by 10.7% due primarily to costs relating to the rehabilitation of the Clute/Richwood Sewage Transmission Line.

**Request for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 215 Halbert, Richwood, Texas, 77531, or call (979) 265-2082.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## **BASIC FINANCIAL STATEMENTS**

**CITY OF RICHWOOD**  
Richwood, Texas

STATEMENT OF NET ASSETS

September 30, 2011

	Governmental Activities	Business- Type Activities	Total
Assets:			
Cash and temporary investments	\$ 662,028	\$ 263,415	\$ 925,443
Investments	391,212	60,689	451,901
Receivables (Net)			
Property taxes	38,034		38,034
Accounts		153,814	153,814
Sales taxes	53,310		53,310
Accrued interest	2,197	1,023	3,220
Other	83,463		83,463
Interfund accounts	131,295	( 131,295)	-0-
Due from other governments	5,727	47,493	53,220
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		884,405	884,405
Investments		264,406	264,406
Accrued interest		132	132
Bond issuance costs – current		2,043	2,043
Bond issuance costs (net)		32,531	32,531
Capital Assets (Net of Accumulated Depreciation):			
Land	266,940	122,580	389,520
Buildings	103,761	104,488	208,249
Furniture, equipment and vehicles	519,403	10,972	530,375
Infrastructure	6,517,235	5,549,079	12,066,314
Construction in progress		76,525	76,525
	<u>8,774,605</u>	<u>7,442,300</u>	<u>16,216,905</u>
Total assets			

(continued)

**CITY OF RICHWOOD**  
Richwood, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2011

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 68,321	\$ 80,126	\$ 148,447
Unearned revenue	4,815		4,815
Liabilities Payable from Restricted Assets:			
Accrued interest payable		14,261	14,261
Revenue bonds payable – current		61,000	61,000
Customer deposits		70,724	70,724
Noncurrent Liabilities:			
Due within one year	50,077		50,077
Due in more than one year	<u>695,000</u>	<u>1,240,000</u>	<u>1,935,000</u>
Total liabilities	<u>818,213</u>	<u>1,466,111</u>	<u>2,284,324</u>
 Net Assets:			
Invested in capital assets, net of related debt	6,662,262	4,448,452	11,110,714
Restricted For:			
Seizure and forfeiture	859		859
Debt service	64,262	347,250	411,512
Capital projects	24,270	751,282	775,552
Court security and technology	20,020		20,020
Enterprise fund (Long-term receivable)	114,192		114,192
Unrestricted	<u>1,070,527</u>	<u>429,205</u>	<u>1,499,732</u>
Total net assets	<u>\$ 7,956,392</u>	<u>\$ 5,976,189</u>	<u>\$ 13,932,581</u>

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

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General administration	\$ 419,366	\$ 22,021	\$	\$
Judicial	103,346			
Police department	741,466	226,298	29,729	
Fire department	136,668			
City maintenance	268,502			
Streets and drainage	207,155			28,238
Parks and recreation	60,539	9,525		
Interest on long-term debt	<u>69,228</u>			
Total governmental activities	<u>2,006,270</u>	<u>257,844</u>	<u>29,729</u>	<u>28,238</u>
Business-type Activities:				
Water, sewer and sanitation	<u>1,101,381</u>	<u>889,554</u>		<u>50,863</u>
Total business-type activities	<u>1,101,381</u>	<u>889,554</u>	<u>-0-</u>	<u>50,863</u>
Total	<u>\$ 3,107,651</u>	<u>\$ 1,147,398</u>	<u>\$ 29,729</u>	<u>\$ 79,101</u>

## General Revenue:

## Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise fees

Investment earnings

Miscellaneous

Gain on disposition of capital assets

Transfer in (out)

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

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

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$( 397,345)	\$	\$( 397,345)
( 103,346)		( 103,346)
( 485,439)		( 485,439)
( 136,668)		( 136,668)
( 268,502)		( 268,502)
( 178,917)		( 178,917)
( 51,014)		( 51,014)
<u>( 69,228)</u>		<u>( 69,228)</u>
<u>( 1,690,459)</u>	<u>-0-</u>	<u>( 1,690,459)</u>
	<u>( 160,964)</u>	<u>( 160,964)</u>
<u>-0-</u>	<u>( 160,964)</u>	<u>( 160,964)</u>
<u>( 1,690,459)</u>	<u>( 160,964)</u>	<u>( 1,851,423)</u>
1,046,536		1,046,536
94,023		94,023
318,518		318,518
168,586		168,586
7,551	5,025	12,576
62,681		62,681
13,750		13,750
<u>6,012</u>	<u>( 6,012)</u>	<u>-0-</u>
<u>1,717,657</u>	<u>( 987)</u>	<u>1,716,670</u>
27,198	( 161,951)	( 134,753)
<u>7,929,194</u>	<u>6,138,140</u>	<u>14,067,334</u>
<u>\$ 7,956,392</u>	<u>\$ 5,976,189</u>	<u>\$ 13,932,581</u>

**CITY OF RICHWOOD**  
Richwood, Texas

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 607,862	\$ 29,887	\$ 24,279	\$ 662,028
Investments	377,227	13,985		391,212
Receivables:				
Property taxes (net)	34,859	3,175		38,034
Sales taxes	53,310			53,310
Other governments	5,640	87		5,727
Accrued interest	2,172	25		2,197
Other	16,996			16,996
Due from other funds	<u>114,192</u>	<u>17,103</u>		<u>131,295</u>
 Total assets	 <u>\$ 1,212,258</u>	 <u>\$ 64,262</u>	 <u>\$ 24,279</u>	 <u>\$ 1,300,799</u>
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable and accrued expenditures	\$ 68,312	\$	\$ 9	\$ 68,321
Deferred revenue	<u>35,450</u>	<u>2,786</u>		<u>38,236</u>
 Total liabilities	 <u>103,762</u>	 <u>2,786</u>	 <u>9</u>	 <u>106,557</u>
 <u>Fund Balance:</u>				
<u>Non-spendable:</u>				
Enterprise fund (Long-term receivable)	114,192			114,192
<u>Restricted:</u>				
Seizure and forfeiture	859			859
Debt service		61,476		61,476
Court security and technology	20,020			20,020
Street beautification			24,270	24,270
<u>Committed:</u>				
Insurance	15,063			15,063
Capital improvement	103,019			103,019
Equipment replacement	78,283			78,283
Crime control and prevention	9,555			9,555
Unassigned	<u>767,505</u>			<u>767,505</u>
 Total fund balances	 <u>1,108,496</u>	 <u>61,476</u>	 <u>24,270</u>	 <u>1,194,242</u>
 Total liabilities and fund balances	 <u>\$ 1,212,258</u>	 <u>\$ 64,262</u>	 <u>\$ 24,279</u>	 <u>\$ 1,300,799</u>

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

**CITY OF RICHWOOD**  
Richwood, Texas

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

September 30, 2011

Total fund balances – governmental funds balance sheet	\$ 1,194,242
<b>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 11,019,670 in assets less \$ 3,612,331 in accumulated depreciation.	7,407,339
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 30,635 and \$ 2,786, respectively.	33,421
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 212,142, net of allowance of \$ 145,675.	66,467
Payables for bond principal is not reported in the funds.	( 740,000)
Payables for bond interest are not reported in the funds.	<u>( 5,077)</u>
Net assets of governmental activities – statement of net assets.	<u>\$ 7,956,392</u>

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

# CITY OF RICHWOOD

Richwood, Texas

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

For the Year Ended September 30, 2011

	<u>General Fund</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
Property taxes	\$ 1,035,604	\$ 93,104	\$	\$ 1,128,708
Sales taxes	318,518			318,518
Franchise fees	168,586			168,586
Revenue producing facilities	9,525			9,525
Fines and fees	184,429			184,429
Licenses and permits	22,021			22,021
Investment income	7,408	143		7,551
Intergovernmental	29,729			29,729
Miscellaneous	<u>49,434</u>		<u>13,247</u>	<u>62,681</u>
Total revenues	<u>1,825,254</u>	<u>93,247</u>	<u>13,247</u>	<u>1,931,748</u>
Expenditures:				
Current:				
General administration	336,458		11,938	348,396
Judicial	103,346			103,346
Police department	695,573			695,573
Fire department	91,963			91,963
City maintenance	247,111			247,111
Streets and drainage	20,080			20,080
Parks and recreation	25,974			25,974
Capital outlay	221,993			221,993
Debt Service:				
Principal retirement		714,532		714,532
Interest and agent fees		<u>101,467</u>		<u>101,467</u>
Total expenditures	<u>1,742,498</u>	<u>815,999</u>	<u>11,938</u>	<u>2,570,435</u>
Excess of revenues over expenditures	82,756	( 722,752)	1,309	( 638,687)
Other Financing Sources (Uses):				
Issuance of bond		740,000		740,000
Sale of capital assets	22,200			22,200
Transfer in	21,012		22,961	43,973
Transfer out	<u>( 37,961)</u>			<u>( 37,961)</u>
Total other financing sources (uses)	<u>5,251</u>	<u>740,000</u>	<u>22,961</u>	<u>768,212</u>
Net changes in fund balances	88,007	17,248	24,270	129,525
Fund balances – beginning	<u>1,020,489</u>	<u>44,228</u>	<u>-0-</u>	<u>1,064,717</u>
Fund balances - ending	<u>\$ 1,108,496</u>	<u>\$ 61,476</u>	<u>\$ 24,270</u>	<u>\$ 1,194,242</u>

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

# CITY OF RICHWOOD

Richwood, Texas

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

For the Year Ended September 30, 2011

Net change in fund balances – total governmental funds	\$ 129,525
<b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 368,533 exceeded capital outlays \$ 221,993 in the current period.	( 146,540)
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The cost of assets disposed were \$ 58,266 (cost of \$ 244,550 less accumulated depreciation of \$ 186,284).	( 58,266)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 10,932 and for the debt service fund decreased by \$ 919, respectively.	11,851
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. The amount was for general obligation bonded debt in the amount of \$ 750,000.	750,000
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. Long-term proceeds in the governmental fund were \$ 740,000.	( 740,000)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	( 3,229)
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 41,869.	41,869
Capital contributions and gain on trade in capital assets in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Capital contributions amounted to \$ 28,238 and gain on trade in capital assets amounted to \$ 13,750.	<u>41,988</u>
Change in net assets of governmental activities	<u>\$ 27,198</u>

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

**CITY OF RICHWOOD**  
Richwood, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND

September 30, 2011

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 263,415
Investments	60,689
Utility accounts receivable (less allowance for uncollectibles)	153,814
Due from other governments	47,493
Accrued interest receivable	<u>1,023</u>
	<u>526,434</u>
Current Restricted Assets:	
Cash and cash equivalents	884,405
Investments	264,406
Accrued interest receivable	132
Bond issuance costs	<u>2,043</u>
Total current restricted assets	<u>1,150,986</u>
Total current assets	<u>1,677,420</u>
Noncurrent Assets:	
Bond issuance costs (net of current and accumulated amortization of \$ 7,628) - restricted	<u>32,531</u>
Capital Assets:	
Property, plant and equipment	9,510,531
Less accumulated depreciation	<u>( 3,646,887)</u>
Total capital assets (net of accumulated depreciation)	<u>5,863,644</u>
Total noncurrent assets	<u>5,896,175</u>
Total assets	<u>7,573,595</u>

(continued)

	<u>Enterprise Fund</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 80,126
Due to other funds	<u>17,103</u>
Total current liabilities	<u>97,229</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	14,261
Due to other funds	13,296
Revenue bonds payable	61,000
Customer deposits	<u>70,724</u>
Total current liabilities payable from restricted assets	<u>159,281</u>
Total current liabilities	<u>256,510</u>
Noncurrent Liabilities:	
Due to other funds	100,896
Revenue bonds payable - net	<u>1,240,000</u>
Total noncurrent liabilities	<u>1,340,896</u>
Total liabilities	<u>1,597,406</u>
Net Assets:	
Invested in capital assets, net of related debt	4,448,452
Restricted For:	
Revenue bond retirement	347,250
Capital construction	751,282
Unrestricted	<u>429,205</u>
Total net assets	<u>\$ 5,976,189</u>

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

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2011

	<u>Enterprise Fund</u>
Operating Revenues:	
Water service	\$ 453,263
Sewer fees	402,197
Garbage fees	3,748
Delinquent charges	16,205
Taps and reconnect fees	13,385
Miscellaneous	<u>756</u>
Total operating revenues	<u>889,554</u>
Operating Expenses:	
Personnel costs	170,261
Sewer treatment plant operations	161,893
Water costs – BWA	140,671
Lease	195,375
Utilities and telephone	46,130
Repairs and maintenance	79,854
Supplies	23,684
Miscellaneous	<u>17,034</u>
Operating expenses before depreciation	834,902
Depreciation	<u>225,948</u>
Total operating expenses	<u>1,060,850</u>
Operating income (loss)	<u>( 171,296)</u>
Non-Operating Revenues (Expenses):	
Investment income	5,025
Interest expense and agent fees	<u>( 40,531)</u>
Total non-operating revenues (expenses)	<u>( 35,506)</u>
Income (loss) before contributions and operating transfers	( 206,802)
Capital contributions	50,863
Transfer out	<u>( 6,012)</u>
Change in net assets	( 161,951)
Net assets at beginning of year	<u>6,138,140</u>
Net assets at end of year	<u>\$ 5,976,189</u>

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

**CITY OF RICHWOOD**  
Richwood, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2011

	<u>Enterprise Fund</u>
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 851,298
Payments to other funds	( 19,170)
Payments to suppliers	( 672,312)
Payments to employees	<u>( 170,261)</u>
Net cash used for operating activities	<u>( 10,445)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers out	<u>( 6,012)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	( 25,662)
Bond principal payments	( 35,000)
Bond proceeds	770,000
Interest and fiscal charge payments	<u>( 32,863)</u>
Net cash provided by capital and related financing activities	<u>676,475</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	279,090
Purchase of investments	( 325,095)
Interest received	<u>5,025</u>
Net cash used for investing activities	<u>( 40,980)</u>
Net increase in cash and cash equivalents	619,038
Cash and cash equivalents at the beginning of year	<u>528,782</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 1,147,820</u></u>

(continued)

**CITY OF RICHWOOD**  
Richwood, Texas

STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - ENTERPRISE FUND - Continued

For the Year Ended September 30, 2011

	<u>Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income (loss)	\$( <u>171,296</u> )
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	225,948
Decrease in accounts receivable	( 39,936)
Decrease in accounts payable	( 7,671)
Increase in due to other funds	( 19,170)
Increase in customer deposits	<u>1,680</u>
Total adjustments	<u>160,851</u>
Net cash provided by operating activities	\$( <u><u>10,445</u></u> )

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

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**INDEX**

Note	Page
1. Summary of Significant Accounting Policies .....	36
2. Deposits, Investments and Derivatives.....	44
3. Allowance for Uncollectible Accounts .....	48
4. Deferred Revenue .....	48
5. Interfund Receivables and Payables .....	49
6. Capital Assets.....	50
7. Long-Term Debt .....	51
8. Leases .....	55
9. Joint Operations .....	55
10. Pension Plan .....	56
11. Texas Emergency Services Retirement System .....	58
12. Risk-Pool Participation .....	61
13. Excess of Expenditures over Appropriations.....	61
14. Evaluation of Subsequent Events.....	61

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### General Statement

The City of Richwood (City) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public services (utility facilities), public recreation, public benefits (health and welfare), and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

#### Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The City has no component units. The decision to not include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Based upon the application of these criteria, no entities were considered to be component units.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Government-wide and Fund Financial Statements - Continued

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one proprietary fund.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Property taxes, franchise taxes, licenses, municipal court revenues 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 measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. 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.

The Debt Service Fund accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of the governmental funds.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility and sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

#### New Pronouncements

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The statement was implemented by the City during the fiscal year with minimal adjustments to the financial statements.

GASB No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", was issued April 2009. This statement is effective immediately and had no affect on the City's financial statements.

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement is effective immediately and had no affect on the City's financial statements.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - Continued

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. This statement was implemented and did not have an impact on the City's financial statements.

GASB No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2012.

GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2011.

GASB No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2011.

#### Budgetary Data

All departments of the City submit requests for appropriation to the City Secretary so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Budgetary Data - Continued

The City adopts annual budgets for all significant governmental fund types (General Fund and Debt Service Fund) and proprietary fund type (Enterprise Fund).

The City prepares its annual budget on a generally accepted accounting principles basis (GAAP basis). The budget and all transactions are presented in accordance with the City's GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Debt Service and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

#### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The City's encumbrances amounted to \$ 24,848 at September 30, 2011.

#### Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

#### Inventory

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of gasoline and office supplies are recorded as expenditures when acquired. Inventory on hand at the end of the year is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2011 was not significant and therefore, is not recorded.

#### Capital Assets

Capital assets, which includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Continued

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. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2011, no capitalized interest was recorded.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	31.5-40 Years
Furniture, equipment and vehicles	5-10 Years
Infrastructure:	
Water and sewer System	45 Years
General infrastructure assets	40-45 Years

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on July 17, 2010, upon which the levy for the 2010-11 fiscal year was based, was \$ 163,093,369. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and Interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2011, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.63654 and \$ 0.05712 per \$ 100 valuation, respectively, for a total of \$ 0.69366 per \$ 100 valuation.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Property Taxes - Continued

Current tax collections for the year ended September 30, 2011 were 98.69% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2011, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 34,859 and \$ 3,175 for the general and debt service funds, respectively.

#### Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1999, the City implemented GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers, which standardizes financial reporting for pensions by state and local governmental employers for the Emergency Services Personnel Retirement Fund (the Fund) upon the Fund's adoption of GASB 25. For fiscal year ended September 30, 1998, the City implemented GASB Statement 27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset (see Note 10).

#### Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has not recorded any bond premiums and discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. 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. The City has not received any premiums and or discounts on debt issuances.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Balances

The City Council of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the City Council. Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action by the City Council. When it is appropriate for fund balance to be assigned, the City Council, delegates authority to the City Manager or City Secretary. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

During the fiscal year, the City implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

As of September 30, 2011, non-spendable fund balance includes \$ 114,192 for enterprise fund use in the general fund. Restricted fund balances include \$ 859 for seizure and forfeiture, \$ 20,020 for court security and technology in the general fund, \$ 61,476 for debt service, and \$ 24,270 for street beautification in special revenue fund. Committed fund balance includes \$ 15,063 for insurance, \$ 103,019 for capital improvement, \$ 78,283 for equipment replacement, and \$ 9,555 for crime control and prevention in the general fund. Unassigned fund balance includes \$ 767,505 in the general fund.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

**Net Assets**

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES**

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, and investments, as reported on the statement of net assets at September 30, 2011, are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 450	\$	\$ 450
Financial Institution Deposits:			
Demand deposits	126,295	12,456	138,751
Certificates of deposit	123,677	68,614	192,291
Local Government Investment Pool:			
Texpool	<u>675,021</u>	<u>803,335</u>	<u>1,478,356</u>
	<u>925,443</u>	<u>884,405</u>	<u>1,809,848</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	179,766	193,373	373,139
Held by Broker Dealers:			
Certificates of deposit	164,989	61,579	226,568
Equities	<u>107,146</u>	<u>9,454</u>	<u>116,600</u>
Total investments	<u>451,901</u>	<u>264,406</u>	<u>716,307</u>
Total	<u>\$ 1,377,344</u>	<u>\$ 1,148,811</u>	<u>\$ 2,526,155</u>

**Deposits**

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, except \$ 450 petty cash, the carrying amount of the City's deposits was \$ 930,749, while the financial institution balances totaled \$ 938,659. Of the financial institution balances, \$ 445,123 was covered by federal depository insurance, \$ 271,795 was covered by SIPC coverage, and \$ 221,741 was covered by collateral held by the City's agent in the City's name.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The City is invested in a certificate of deposit at Brazoswood National Bank to provide its liquidity needs. It has a maturity of less than 365 days. This investment is insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments - Continued

The City participates in one Local Government Investment Pool (LGIPs): Texpool. The State Comptroller oversees Texpool with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At September 30, 2011 Texpool had a weighted average maturity of 44 days. Although Texpool portfolio had a weighted average maturity of 44 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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 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 following table includes the portfolio balances of all investment types of the City at September 30, 2011.

	Maturity Date	Interest Rate	Weighted Average Maturity (Days)	Investment Balance
Certificate of Deposit	04-29-14	3.35%	6.1	\$ 15,466
Certificate of Deposit	04-29-14	3.35%	14.3	36,166
Certificate of Deposit	04-29-13	3.15%	4.9	20,447
Certificate of Deposit	04-29-14	3.35%	16.3	41,244
Certificate of Deposit	04-29-13	3.15%	4.9	20,447
Certificate of Deposit	04-29-14	3.35%	16.3	41,244
Certificate of Deposit	04-29-14	3.35%	20.3	51,555
Certificate of Deposit	10-22-11	0.50%	0.9	102,371
Certificate of Deposit	11-28-11	0.50%	1.7	68,053
Certificate of Deposit	01-26-12	0.50%	6.1	122,916
Certificate of Deposit	02-29-12	0.40%	3.2	57,569
Certificate of Deposit	12-12-11	0.35%	2.8	89,920
Certificate of Deposit	03-11-12	0.50%	8.5	<u>124,600</u>
Total Certificates of Deposit			8.2	791,998 (continued)

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments - Continued

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Local Government Investment Pool:				
Texpool	N/A	Varies daily	0.6	\$ 1,478,356
Equity	04-25-14	N/A	45.8	<u>116,600</u>
Total investments			5.3	<u>\$ 2,386,954</u>

Texpool - The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. 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. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

Credit Risk - As of September 30, 2011, the LGIPs (which represent approximately 61.93% of the unrestricted portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, while the remainder is either invested in fully secured certificates of deposit or secured by SIPC.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days of the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements.

#### Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2011, and holds no direct investments in derivatives at September 30, 2011.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 3 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The following is a summary of the allowance for uncollectible taxes by fund:

General Fund	\$	15,754
Debt Service Fund		<u>1,772</u>
Total	\$	<u>17,526</u>

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2011 was \$ 145,675.

**NOTE 4 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are 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.

As of September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 30,635	\$
Delinquent property taxes receivable (debt service fund)	2,786	
Other	<u>                    </u>	<u>4,815</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 33,421</u>	<u>\$ 4,815</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund Receivables and Payables:

Interfund balances at September 30, 2011 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise fund	\$ <u>114,192</u>	\$ _____
Total general fund	<u>114,192</u>	<u>-0-</u>
Debt Service Fund:		
Enterprise fund	<u>17,103</u>	_____
Total debt service fund	<u>17,103</u>	<u>-0-</u>
Enterprise Fund:		
General fund		114,192
Debt service fund	_____	<u>17,103</u>
Total enterprise fund	<u>-0-</u>	<u>131,295</u>
Totals	<u>\$ 131,295</u>	<u>\$ 131,295</u>

\$ 114,192 receivable from the General Fund and payable from the Enterprise Fund, is considered a long-term asset and liability. The Enterprise Fund borrowed these funds for the relocation of water and sewer lines for the FM 2004 expansion project and is scheduled to repay with interest as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 13,296	\$ 2,163	\$ 15,459
2013	13,564	1,894	15,458
2014	13,838	1,620	15,458
2015	14,117	1,341	15,458
2016	14,402	1,056	15,458
2017	14,693	765	15,458
2018	14,990	469	15,459
2019	<u>15,292</u>	<u>166</u>	<u>15,458</u>
	<u>\$ 114,192</u>	<u>\$ 9,474</u>	<u>\$ 123,666</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 6 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>10/01/10</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/11</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 266,940	\$ _____	\$ _____	\$ 266,940
Total capital assets, not being depreciated	<u>266,940</u>	<u>-0-</u>	<u>-0-</u>	<u>266,940</u>
Capital Assets, Being Depreciated:				
Buildings	396,639	6,350	17,300	385,689
Equipment	1,389,999	201,637	227,250	1,364,386
Infrastructure	<u>8,946,661</u>	<u>55,994</u>	<u>_____</u>	<u>9,002,655</u>
Total capital assets, being depreciated	<u>10,733,299</u>	<u>263,981</u>	<u>244,550</u>	<u>10,752,730</u>
Less Accumulated Depreciation For:				
Buildings	277,313	14,177	9,562	281,928
Equipment	914,424	107,281	176,722	844,983
Infrastructure	<u>2,238,345</u>	<u>247,075</u>	<u>_____</u>	<u>2,485,420</u>
Total accumulated depreciation	<u>3,430,082</u>	<u>368,533</u>	<u>186,284</u>	<u>3,612,331</u>
Total capital assets, being depreciated, net	<u>7,303,217</u>	<u>( 104,552)</u>	<u>58,266</u>	<u>7,140,399</u>
Governmental activities capital assets, net	\$ <u>7,570,157</u>	\$ <u>( 104,552)</u>	\$ <u>58,266</u>	\$ <u>7,407,339</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 122,580	\$ _____	\$ _____	\$ 122,580
Construction in progress	<u>_____</u>	<u>76,525</u>	<u>_____</u>	<u>76,525</u>
Total capital assets, not being depreciated	<u>122,580</u>	<u>76,525</u>	<u>-0-</u>	<u>199,105</u>
Capital Assets, Being Depreciated:				
Buildings	183,770	<u>_____</u>	<u>_____</u>	183,770
Equipment	219,445	<u>_____</u>	<u>_____</u>	219,445
Infrastructure	<u>8,908,211</u>	<u>_____</u>	<u>_____</u>	<u>8,908,211</u>
Total capital assets, being depreciated	<u>9,311,426</u>	<u>-0-</u>	<u>-0-</u>	<u>9,311,426</u>
Less Accumulated Depreciation For:				
Buildings	74,688	4,594	<u>_____</u>	79,282
Equipment	197,366	11,107	<u>_____</u>	208,473
Infrastructure	<u>3,148,885</u>	<u>210,247</u>	<u>_____</u>	<u>3,359,132</u>
Total accumulated depreciation	<u>3,420,939</u>	<u>225,948</u>	<u>_____</u>	<u>3,646,887</u>
Total capital assets, being depreciated, net	<u>5,890,487</u>	<u>( 225,948)</u>	<u>-0-</u>	<u>5,664,539</u>
Business-type activities capital assets, net	\$ <u>6,013,067</u>	\$ <u>( 149,423)</u>	\$ <u>-0-</u>	\$ <u>5,863,644</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 6 - CAPITAL ASSETS** - Continued

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

Governmental Activities:	
General administration	\$ 70,970
City maintenance	11,390
Streets and drainage	187,075
Police department	42,077
Fire department	44,705
Parks and recreation	<u>12,316</u>
Total depreciation expense-governmental activities	\$ <u>368,533</u>
Business-type Activities:	
Water and sewer	\$ <u>225,948</u>
Total depreciation expense-business-type activities	\$ <u>225,948</u>

**Contributed Capital**

During the year ended September 30, 2011 the City received contributed capital in the amount of \$ 28,238, from the Fire Department, which is reported within governmental activities.

**NOTE 7 - LONG-TERM DEBT**

**General Obligation Bonds\Certificates of Obligation**

In November 1999, the City issued City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 1999 in the amount of \$ 1,035,000 for approved capital construction. Interest rates for these bonds ranged from 5.20% to 7.75%.

In July 2011, the City issued City of Richwood, Texas general Obligation Refunding Bonds, Series 2011 in the amount of \$ 740,000 to refund the City of Richwood, Texas Tax and Revenue Certificates of Obligation Bonds, Series 1999. Interest rate for these bonds is 3.13%.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2011, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/11
		Issued	Maturity	Callable	
Certificates of Obligation:					
Refunding Bonds, Series 2011	3.130%	2011	2024	2009	\$ <u>740,000</u>
Total					\$ <u>740,000</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds\Certificates of Obligation - Continued

General obligation bond transactions for the year ended September 30, 2011 were as follows:

Bonds outstanding, October 1, 2010	\$ 750,000
Issued	740,000
Defeased	<u>( 750,000)</u>
Bonds outstanding, September 30, 2011	\$ <u>740,000</u>

The following is a summary of general obligation bond requirements for governmental activities by year as of September 30, 2011:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2012	\$ 45,000	\$ 25,285	\$ 70,285
2013	50,000	21,754	71,754
2014	45,000	20,188	65,188
2015	50,000	18,780	68,780
2016	55,000	17,215	72,215
2017-2021	295,000	59,626	354,626
2022-2024	<u>200,000</u>	<u>12,677</u>	<u>212,677</u>
Total	\$ <u>740,000</u>	\$ <u>175,525</u>	\$ <u>915,525</u>

Revenue Bonds\Certificates of Obligation

In July 2004, the City issued \$ 500,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004 to finance improvements to the existing wastewater system (the "Project"). Interest rates on these bonds range from 2.75% to 5.70%. These certificates of obligation were purchased by the Texas Water Development Board. \$ 467,500 of the proceeds were being held in escrow with a financial institution pending approval by the Texas Water Development Board of contracts and other documentation for this Project. During the year ended September 30, 2005 these funds were transferred to the City.

In July 2011, the City issued \$ 770,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2011 to finance improvements to the existing wastewater system. Interest rates on these bonds were 3.89%.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 7 - LONG-TERM DEBT** - Continued

**Revenue Bonds/Certificates of Obligation** - Continued

Revenue and certificates of obligation payable from business-type activities at September 30, 2011, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/11
		Issued	Maturity	Callable	
Revenue Bonds					
Series 1980	5.00	1980	2019	1990	\$ 136,000
Combination Tax and Revenue Certificates of Obligation- Series 2004	5.2- 7.5	2004	2025	2009	395,000
Combination Tax and Revenue Certificates of Obligation- Series 2011	3.89	2011	2031	2020	<u>770,000</u>
Total					<u>\$ 1,301,000</u>

Revenue bond/certificates of obligation transactions for the year ended September 30, 2011 were as follows:

Bonds outstanding, October 1, 2010	\$ 566,000
Issued	770,000
Maturities	<u>( 35,000)</u>
Bonds outstanding, September 30, 2011	<u>\$ 1,301,000</u>

The following is a summary of revenue bond/certificates of obligation requirements for business-type activities by year as of September 30, 2011:

Year Ending September 30,	Principal	Interest	Total Requirements
2012	\$ 61,000	\$ 59,416	\$ 120,416
2013	62,000	53,978	115,978
2014	67,000	51,236	118,236
2015	73,000	48,128	121,128
2016	74,000	44,818	118,818
2017-2021	354,000	173,782	527,782
2022-2026	350,000	92,301	442,301
2027-2031	<u>260,000</u>	<u>31,703</u>	<u>291,703</u>
Total	<u>\$ 1,301,000</u>	<u>\$ 555,362</u>	<u>\$ 1,856,362</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 7 - LONG-TERM DEBT** - Continued

**Revenue Bonds/Certificates of Obligation** - Continued

Transactions for the year ended September 30, 2011 are summarized as follows:

	<u>Balance</u> <u>10/01/10</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/11</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Certificates of obligation	\$ 750,000	\$ 740,000	\$ 750,000	\$ 740,000	\$ 45,000
Component of Bonded Debt:					
Accrued interest payable	<u>1,848</u>	<u>5,077</u>	<u>1,848</u>	<u>5,077</u>	<u>5,077</u>
Total governmental activities	<u>751,848</u>	<u>745,077</u>	<u>751,848</u>	<u>745,077</u>	<u>50,077</u>
Business Type Activities:					
Certificates of obligation	415,000	770,000	20,000	1,165,000	45,000
Revenue bonds	151,000		15,000	136,000	16,000
Component of Bonded Debt:					
Accrued interest payable	<u>6,592</u>	<u>14,261</u>	<u>6,592</u>	<u>14,261</u>	<u>14,261</u>
Total business type activities	572,592	784,261	41,592	1,315,261	75,261
Less Portion Payable from Restricted Assets:					
Certificate of obligation	20,000	25,000		45,000	45,000
Revenue bonds payable	15,000	1,000		16,000	16,000
Accrued interest payable	<u>6,592</u>	<u>14,261</u>	<u>6,592</u>	<u>14,261</u>	<u>14,261</u>
Net business-type activities	<u>531,000</u>	<u>744,000</u>	<u>35,000</u>	<u>1,240,000</u>	<u>-0-</u>
Total government (net)	\$ <u>1,282,848</u>	\$ <u>1,489,077</u>	\$ <u>786,848</u>	\$ <u>1,985,077</u>	\$ <u>50,077</u>

**Advance Refunding**

On July 12, 2011, the City sold \$ 740,000 of General Obligation Refunding Bonds, Series 2011. The net proceeds of \$ 714,532 was placed in escrow for the defeasement of \$ 750,000 in Texas Combination Tax and Revenue Certificates of Obligation, Series 1999 bonds. These bonds were advanced refunded on August 11, 2011. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 92,245. The economic gain resulting from the transaction was \$ 116,577.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 8 - LEASES**

**Capital Leases**

The City has no capital leases as of September 30, 2011.

**Operating Leases**

In February, the City entered into a copier lease that will expire in February 2013. This lease is considered for accounting purposes to be an operating lease. The lease is on a month-to-month basis. Total governmental activities lease expenditures for the year ended September 30, 2011 were \$ 3,652.

On February 26, 2010, the City's Enterprise Fund entered into an interlocal waste water transmission line lease agreement, an operating lease, with the City of Clute. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payment. During the year ended September 30, 2011 the business-type activities reported expenses in the amount of \$ 195,376. The following are the minimal lease payments required under this lease:

<u>Year Ending September 30,</u>	<u>Total Requirements</u>
2012	\$ 197,067
2013	148,041
2014	132,269
2015	133,299
2016	134,366
2017-2021	695,872
2022-2026	<u>630,915</u>
Total	<u>\$ 2,071,829</u>

**NOTE 9 - JOINT OPERATIONS**

The City is party to an agreement with the City of Clute to share costs associated with the operation of a sewer treatment plant. The percentage for sharing the operating expenses (excluding maintenance and capital outlay) is determined based upon the metered flow of wastewater for each City. For the year ended September 30, 2011, the City of Richwood's portion of these expenses was determined to be 18.53 percent, which amounted to \$ 116,601. Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions) which amounted to \$ 45,292 for the year ended September 30, 2011. The City of Clute maintains both budgetary and accounting responsibility over these operations.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

### NOTE 10 - PENSION PLAN

#### Plan Description

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

TMRS issued a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

#### Contributions

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

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

The City contributes at the level of the ARC (Annual Required Contribution) each year. Annual pension cost and actual contributions made for the fiscal year 2010 was \$ 96,764.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

NOTE 10 - PENSION PLAN - Continued

Plan Description - Continued

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

Valuation Date	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/10-Prior to Restructuring</u>	<u>12/31/10 Restructured</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29.0 years; closed period	28.3 years; closed period	27.4 year; closed period	27.4 years; closed period
Amortization Period for new Gain/Losses	30 years	30 years	30 years	28 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
*Includes inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%	2.1%

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following:

Texas Municipal Retirement System  
 PO Box 149153  
 Austin, TX 78714-9153  
 (877) 634-8595

Funding Status and Progress

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

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 10 - PENSION PLAN** - Continued

**Funding Status and Progress** - Continued

The funded status as of December 3, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
12/31/10 <sup>1</sup>	\$ 1,408,285	\$ 2,097,930	67.1%	\$ 689,645	\$ 799,700	86.2%
12/31/10 <sup>2</sup>	1,846,409	2,452,028	75.3%	605,619	799,700	75.7%

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

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

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

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

**NOTE 11 – TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

**Plan Description**

The Fire Fighters' Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2010, there were 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,167
Terminated participants entitled to benefits but not yet receiving them	2,106
Active participants (vested and nonvested)	<u>4,371</u>
	8,644

## CITY OF RICHWOOD

Richwood, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

#### NOTE 11 – TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

##### Plan Description - Continued

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Member are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

##### Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislative, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

##### Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$ 2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2008 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010 (\$ 502,941 to pay for part of the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contributions amount in future years

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 11 – TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued**

**Contributions Required and Contributions Made - Continued**

for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$ 500,000 each year to help for part of the System’s administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

**Required Supplementary Information - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) <sup>1</sup> - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/06	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/08 <sup>2</sup>	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/10 <sup>3</sup>	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984

Notes:

- <sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.
- <sup>2</sup> Changes in actuarial assumptions were reflected in this valuation.
- <sup>3</sup> Changes in actuarial assumption and method were reflected in this valuation.

Fiscal Year Ending	Schedule of Employer Contributions		
	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
August 31, 2008	\$ 3,160,764 <sup>1</sup>	\$ 11,239,339 <sup>3</sup>	356%
August 31, 2009	2,698,271 <sup>2</sup>	2,698,271	100%
August 31, 2010	2,875,103 <sup>2</sup>	2,875,103	100%

- <sup>1</sup> Based on the August 31, 2006 actuarial valuation.
- <sup>2</sup> Based on the August 31, 2008 actuarial valuation.
- <sup>3</sup> Includes a State contribution of \$ 8,800,000.

A report may be obtained by contacting the Texas Comptroller, Post Office Box 13528, Capital Station, Austin, TX 78711-3528.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2011

**NOTE 12 - RISK POOL PARTICIPATION**

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation, and medical insurance. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. In addition, the City has designated a portion of the General Fund balance for insurance contingencies, to handle deductibles and other associated costs. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

**NOTE 13 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year ended September 30, 2011, expenditures exceeded appropriations on the funds as follows:

General Fund	\$	121,224
Debt Service Fund	\$	722,836

The budget was not amended; however, the City Council approved these expenditures as required by City budget procedures. The differences in General Fund were the results of additional administrative and capital outlay expenditures. The difference in Debt Service Fund was the result of refinancing long-term debt.

**NOTE 14 - EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through February 14, 2012, the date which the financial statements were available to be issued.

***THIS PAGE LEFT BLANK INTENTIONALLY.***

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF RICHWOOD**

Richwood, Texas

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

For the Year Ended September 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,019,974	\$ 1,019,974	\$ 1,035,604	\$ 15,630
Sales taxes	260,000	260,000	318,518	58,518
Franchise fees	160,000	160,000	168,586	8,586
Revenue producing facilities	20,000	20,000	9,525	( 10,475)
Fines and fees	125,000	125,000	184,429	59,429
Licenses and permits			22,021	22,021
Investment income	10,000	10,000	7,408	( 2,592)
Intergovernmental	31,000	31,000	29,729	( 1,271)
Miscellaneous	20,000	20,000	49,434	29,434
Total revenues	<u>1,645,974</u>	<u>1,645,974</u>	<u>1,825,254</u>	<u>179,280</u>
Expenditures:				
Current:				
General administration	323,663	284,663	336,458	( 51,795)
Judicial	106,703	106,703	103,346	3,357
Police department	695,728	695,728	695,573	155
Fire department	93,750	91,400	91,963	( 563)
City maintenance	244,530	244,530	247,111	( 2,581)
Streets and drainage	22,500	16,500	20,080	( 3,580)
Parks and recreation	58,050	64,350	25,974	38,376
Capital outlay	101,050	117,400	221,993	( 104,593)
Total expenditures	<u>1,645,974</u>	<u>1,621,274</u>	<u>1,742,498</u>	<u>( 121,224)</u>
Excess of revenues over (under) expenditures	-0-	24,700	82,756	58,056
Other Financing Resources (Uses):				
Sale of capital assets			22,200	22,200
Transfers out			( 16,949)	( 16,949)
Net changes in fund balances	-0-	24,700	88,007	63,307
Fund balances, beginning	<u>1,020,489</u>	<u>1,020,489</u>	<u>1,020,489</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 1,020,489</u>	<u>\$ 1,045,189</u>	<u>\$ 1,108,496</u>	<u>\$ 63,307</u>

**CITY OF RICHWOOD**

Richwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 LAST THREE FISCAL YEARS – (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) – (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
12/31/08	\$ 1,133,357	\$ 1,683,022	67.3%	\$ 549,665	\$ 728,840	75.4%
12/31/09	1,326,950	1,970,303	67.3%	643,353	798,226	80.6%
12/31/10 <sup>1</sup>	1,408,285	2,097,930	67.1%	689,645	799,700	86.2%
12/31/10 <sup>2</sup>	1,846,409	2,452,028	75.3%	605,619	799,700	75.7%

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

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

***THIS PAGE LEFT BLANK INTENTIONALLY.***

## **INDIVIDUAL FUND SCHEDULES**

**CITY OF RICHWOOD**

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL -  
DEBT SERVICE FUND**

For the Year Ended September 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 93,043	\$ 93,043	\$ 93,104	\$ 61
Interest	<u>120</u>	<u>120</u>	<u>143</u>	<u>23</u>
Total revenues	<u>93,163</u>	<u>93,163</u>	<u>93,247</u>	<u>84</u>
Expenditures:				
Debt Service:				
Principal	47,575	47,575	714,532	( 666,957)
Interest and fiscal charges	<u>45,588</u>	<u>45,588</u>	<u>101,467</u>	<u>( 55,879)</u>
Total expenditures	<u>93,163</u>	<u>93,163</u>	<u>815,999</u>	<u>( 722,836)</u>
Excess of revenues over (under) expenditures	-0-	-0-	( 722,752)	( 722,752)
Other financing resources (used)			<u>740,000</u>	<u>740,000</u>
Net changes in fund balances	-0-	-0-	17,248	17,248
Fund balances, beginning	<u>44,228</u>	<u>44,228</u>	<u>44,228</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 44,228</u>	<u>\$ 44,228</u>	<u>\$ 61,476</u>	<u>\$ 17,248</u>

**CITY OF RICHWOOD**

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL -  
PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Water fees	\$ 497,325	\$ 497,325	\$ 453,263	\$ ( 44,062)
Sewer fees	457,318	457,318	402,197	( 55,121)
Garbage fees	20,000	20,000	3,748	( 16,252)
Delinquent charges	25,000	25,000	16,205	( 8,795)
Tap and reconnect fees	20,000	20,000	13,385	( 6,615)
Miscellaneous	15,000	15,000	756	( 14,244)
Total revenues	<u>1,034,643</u>	<u>1,034,643</u>	<u>889,554</u>	<u>( 145,089)</u>
Operating Expenses:				
Personnel costs	194,375	190,375	170,261	20,114
Sewer treatment plant operations	380,000	184,770	357,268	( 172,498)
Water costs – BWA	144,000	144,000	140,671	3,329
Utilities and telephone	47,000	47,000	46,130	870
Repairs and maintenance	48,000	98,000	79,854	18,146
Supplies	57,000	50,500	23,684	26,816
Miscellaneous	20,900	213,630	17,034	196,596
Operating expenses before depreciation	891,275	928,275	834,902	93,373
Depreciation	<u>193,368</u>	<u>193,368</u>	<u>225,948</u>	<u>( 32,580)</u>
Total operating expenses	<u>1,084,643</u>	<u>1,121,643</u>	<u>1,060,850</u>	<u>60,793</u>
Operating income (loss)	<u>( 50,000)</u>	<u>( 87,000)</u>	<u>( 171,296)</u>	<u>( 84,296)</u>
Non-Operating Revenues (Expenses):				
Investment income			5,025	5,025
Interest expense and agent fees			( 40,531)	( 40,531)
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>	<u>( 35,506)</u>	<u>( 35,506)</u>
Income (loss) before contributions and operating transfers	<u>( 50,000)</u>	<u>( 87,000)</u>	<u>( 206,802)</u>	<u>( 119,802)</u>
Capital contributions			50,863	50,863
Transfer from/(to)			( 6,012)	( 6,012)
Change in net assets	<u>( 50,000)</u>	<u>( 87,000)</u>	<u>( 161,951)</u>	<u>( 74,951)</u>
Net assets, beginning	<u>6,138,140</u>	<u>6,138,140</u>	<u>6,138,140</u>	<u>-0-</u>
Net assets, ending	<u>\$ 6,088,140</u>	<u>\$ 6,051,140</u>	<u>\$ 5,976,189</u>	<u>\$ ( 74,951)</u>

***THIS PAGE LEFT BLANK INTENTIONALLY.***