

**CITY OF RICHWOOD**  
RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2009

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

**CITY OF RICHWOOD**

Richwood, Texas

*Annual Financial Report  
For the Year Ended September 30, 2009*

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**FINANCIAL SECTION**

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditor's Report

January 13, 2010

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, 2009, 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, 2009 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 January 13, 2010 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.

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The Management's Discussion and Analysis on pages 9 through 16 and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and the Texas Municipal Retirement System Schedule of Funding Progress - Last Three Years on pages 54 through 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richwood's basic financial statements. 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 & Hungford, LLC*

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2009*

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, 2009.

**Financial Highlights**

- The assets of the City of Richwood exceeded its liabilities at the close of the most recent fiscal year by \$ 7,966,275 (net assets). Of this amount, \$ 1,148,488 (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 increased by \$ 208,828.
- As of the close of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 898,214. 79.05% of this total amount, \$ 710,079 (unreserved fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 710,079 or 43.87% 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, 2009*

The government-wide financial statements can be found on pages 18 through 21 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 Capital Projects funds. The General and Debt Service funds are considered to be major funds. The governmental fund financial statements can be found on pages 22 through 25 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 26 through 30 of this report.

## CITY OF RICHWOOD, TEXAS

*Management's Discussion and Analysis  
For the Year Ended September 30, 2009*

**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 31 through 52 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 54 and 55 of this report.

The individual fund statements and schedules, and other schedules are presented following the required supplementary information. These individual statements and schedules and other schedules can be found on pages 58 through 59 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 \$ 7,966,275 as of September 30, 2009.

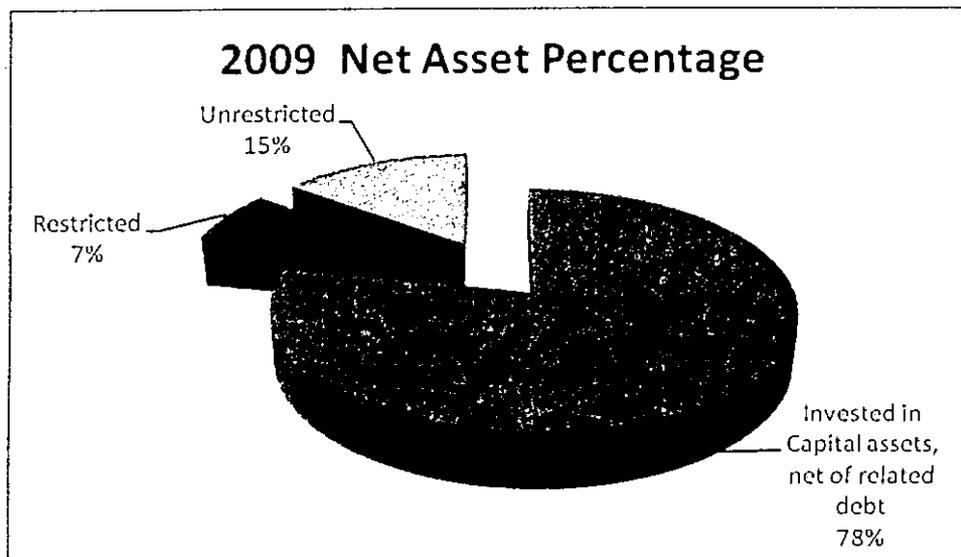
The largest portion of the City's net assets \$ 6,244,816 (78.39%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital 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 \$ 572,971 (7.19%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 1,148,488 (14.42%) 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, 2009*

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

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 988,975	\$ 1,081,118	\$ 834,951	\$ 790,828	\$ 1,823,926	\$ 1,871,946
Capital assets	<u>2,985,297</u>	<u>2,809,701</u>	<u>4,786,447</u>	<u>4,777,163</u>	<u>7,771,744</u>	<u>7,586,864</u>
Total assets	<u>3,974,272</u>	<u>3,890,819</u>	<u>5,621,398</u>	<u>5,567,991</u>	<u>9,595,670</u>	<u>9,458,810</u>
Other liabilities	57,975	84,616	218,492	194,747	276,467	279,363
Long-term liabilities	<u>786,928</u>	<u>817,000</u>	<u>566,000</u>	<u>605,000</u>	<u>1,352,928</u>	<u>1,422,000</u>
Total liabilities	<u>844,903</u>	<u>901,616</u>	<u>784,492</u>	<u>799,747</u>	<u>1,629,395</u>	<u>1,701,363</u>
Net Assets:						
Invested in capital assets, net of related debt	2,198,369	1,992,701	4,046,447	4,143,163	6,244,816	6,135,864
Restricted	190,091	41,539	382,880	415,094	572,971	456,633
Unrestricted	<u>740,909</u>	<u>954,963</u>	<u>407,579</u>	<u>209,987</u>	<u>1,148,488</u>	<u>1,164,950</u>
Total net assets	<u>\$ 3,129,369</u>	<u>\$ 2,989,203</u>	<u>\$ 4,836,906</u>	<u>\$ 4,768,244</u>	<u>\$ 7,966,275</u>	<u>\$ 7,757,447</u>



As of September 30, 2009, 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.

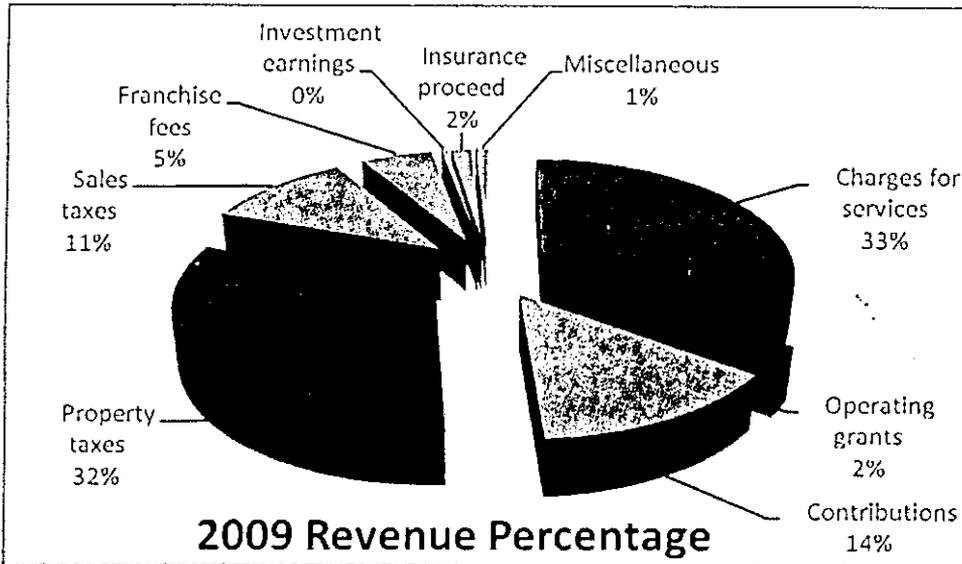
**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2009*

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2009. Governmental activities increased the City of Richwood's net assets by \$ 140,166. Business-type activities increased the City's net assets by \$ 68,662.

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

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for services	\$ 148,782	\$ 153,072	\$ 794,197	\$ 738,520	\$ 942,979	\$ 891,592
Operating grants and contributions	63,355	184,468			63,355	184,468
Capital grants and contributions	350,000	876,989	47,493	410,785	397,493	1,287,774
General Revenues:						
Taxes:						
Property taxes	907,586	838,725			907,586	838,725
Sales taxes	317,227	278,613			317,227	278,613
Franchise fees	156,309	142,310			156,309	142,310
Investment earnings	9,659	22,741	3,826	10,919	13,485	33,660
Insurance proceed			44,882		44,882	-0-
Miscellaneous	26,843	26,214			26,843	26,214
Total revenues	<u>1,979,761</u>	<u>2,523,132</u>	<u>890,398</u>	<u>1,160,224</u>	<u>2,870,159</u>	<u>3,683,356</u>
Expenses:						
General administration	320,717	226,444			320,717	226,444
Judicial	12,840	10,217			12,840	10,217
Police department	793,079	603,588			793,079	603,588
Fire department	137,880	96,375			137,880	96,375
City maintenance	257,882	216,772			257,882	216,772
Streets and drainage	125,445	108,280			125,445	108,280
Parks and recreation	85,219	71,928			85,219	71,928
Hurricane Ike	59,991	85,477			59,991	85,477
Interest on long-term debt	46,542	49,075			46,542	49,075
Water, sewer & sanitation			821,736	804,512	821,736	804,512
Total expenses	<u>1,839,595</u>	<u>1,468,156</u>	<u>821,736</u>	<u>804,512</u>	<u>2,661,331</u>	<u>2,272,668</u>
Increase (decrease) in net assets	140,166	1,054,976	68,662	355,712	208,828	1,410,688
Net assets – beginning	<u>2,989,203</u>	<u>1,934,227</u>	<u>4,768,244</u>	<u>4,412,532</u>	<u>7,757,447</u>	<u>6,346,759</u>
Net assets – ending	<u>\$ 3,129,369</u>	<u>\$ 2,989,203</u>	<u>\$ 4,836,906</u>	<u>\$ 4,768,244</u>	<u>\$ 7,966,275</u>	<u>\$ 7,757,447</u>

**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2009*



**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 combined ending fund balances of \$ 898,214. 79.05% of this total amount (\$ 710,079) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) encumbrances (\$ 3,637), 2) for debt service (\$ 27,057), 3) for court security and technology (\$ 17,441), and 4) for relocation of water and sewer lines (\$ 140,000).

The General Fund balance decreased by \$ 68,729; and the Debt Service Fund balance increased by \$ 4,596

**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, 2009 amounted to \$ 407,579. Total net assets increased \$ 68,662.

**CITY OF RICHWOOD, TEXAS**  
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*For the Year Ended September 30, 2009*

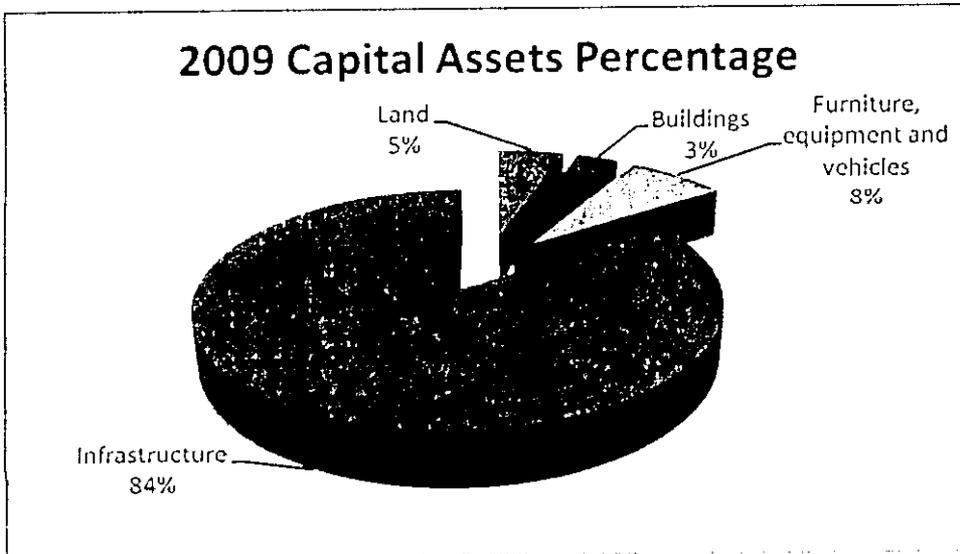
**General Fund Budgetary Highlights.** The City's overall budgeted revenue and expenditures increased during the year by 0.47% or \$ 7,250; and was the result of revised projections. Expenditures exceeded budgetary estimates by \$ 75,838 which mainly resulted from Hurricane Ike and underestimating of year-end accruals.

**Capital Assets**

The City of Richwood's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$ 7,771,744 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, and infrastructure. During the year ended September 30, 2009, the City received contributed capital in the amount of \$ 397,493, in which \$ 350,000 was from the Volunteer Fire Department, and \$ 47,493 was from other governments. Of the total amount, \$ 350,000 is reported within governmental activities and \$ 47,493 is reported within the business-type activities as water system improvements.

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

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30	
	2009	2008	2009	2008	2009	2008
Land	\$ 266,940	\$ 266,940	\$ 122,580	\$ 122,580	\$ 389,520	\$ 389,520
Buildings	133,301	147,276	113,676	65,500	246,977	212,776
Furniture, equipment & vehicles	551,210	300,135	26,552	40,044	577,762	340,179
Infrastructure	<u>2,033,846</u>	<u>2,095,350</u>	<u>4,523,639</u>	<u>4,549,039</u>	<u>6,557,485</u>	<u>6,644,389</u>
Total assets	<u>\$ 2,985,297</u>	<u>\$ 2,809,701</u>	<u>\$ 4,786,447</u>	<u>\$ 4,777,163</u>	<u>\$ 7,771,744</u>	<u>\$ 7,586,864</u>



**CITY OF RICHWOOD, TEXAS**  
*Management's Discussion and Analysis*  
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Additional information on the City of Richwood's capital assets can be found in Note 6 on pages 45 through 46 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 \$ 1,385,000. Of this amount, \$ 1,220,000 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. The remaining \$ 165,000 represents bonds secured solely by water and sewer revenues. Further, the City did not have obligations under capital lease.

	<b>Outstanding Debt at Year End</b>					
	<b>Bonds Payable</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	September 30,		September 30,		September 30,	
	2009	2008	2009	2008	2009	2008
Certificates of						
Obligation bonds	\$ 785,000	\$ 815,000	\$ 435,000	\$ 455,000	\$ 1,220,000	\$ 1,270,000
Revenue bonds			165,000	179,000	165,000	179,000
<b>Total</b>	<b>\$ 785,000</b>	<b>\$ 815,000</b>	<b>\$ 600,000</b>	<b>\$ 634,000</b>	<b>\$ 1,385,000</b>	<b>\$ 1,449,000</b>

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 46 through 48 of this report.

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

In the 2009-2010 Budget, General fund revenues are budgeted to increase by 8.0% from 2008-2009 budget year due to increases in general property taxes and municipal court fees.

Certified assessed valuations increased 19.0% over the preceding year. Property taxes will increase approximately 8.0%.

Monies have been budgeted for Economic Development and Capital Projects..

The Enterprise Fund's 2009-2010 budgeted expenditures are to increase by 19.7% than the preceding year's budget. Water and Sewer rates for the 2009-2010 budget year will increase by 15.0% due primarily to the 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.

**CITY OF RICHWOOD**

Richwood, Texas

**STATEMENT OF NET ASSETS**

September 30, 2009

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Assets:			
Cash and temporary investments	\$ 348,663	\$ 272,783	\$ 621,446
Investments	351,744	43,741	395,485
Receivables (Net)			
Property taxes	22,964		22,964
Accounts		152,303	152,303
Sales taxes	43,822		43,822
Accrued interest	184	51	235
Other	33,657	875	34,532
Interfund accounts	137,199	( 137,199)	-0-
Due from other governments	50,742	47,493	98,235
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		209,325	209,325
Investments		228,900	228,900
Accrued interest		249	249
Bond issuance costs – current		1,027	1,027
Bond issuance costs (net)		15,403	15,403
Capital Assets (Net of Accumulated Depreciation):			
Land	266,940	122,580	389,520
Buildings	133,301	113,676	246,977
Furniture, equipment and vehicles	551,210	26,552	577,762
Infrastructure	<u>2,033,846</u>	<u>4,523,639</u>	<u>6,557,485</u>
Total assets	<u>3,974,272</u>	<u>5,621,398</u>	<u>9,595,670</u>

(continued)

**CITY OF RICHWOOD**

Richwood, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2009

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 45,447	\$ 109,667	\$ 155,114
Unearned revenue	12,528		12,528
Liabilities Payable from Restricted Assets:			
Accrued interest payable		7,151	7,151
Revenue bonds payable – current		34,000	34,000
Customer deposits		67,674	67,674
Noncurrent Liabilities:			
Due within one year	36,928		36,928
Due in more than one year	<u>750,000</u>	<u>566,000</u>	<u>1,316,000</u>
Total liabilities	<u>844,903</u>	<u>784,492</u>	<u>1,629,395</u>
Net Assets:			
Invested in capital assets, net of related debt	2,198,369	4,046,447	6,244,816
Restricted For:			
Encumbrances	3,637		3,637
Debt service	29,013	377,956	406,969
Capital projects		4,924	4,924
Court security and technology	17,441		17,441
Relocation of water and sewer lines	140,000		140,000
Unrestricted	<u>740,909</u>	<u>407,579</u>	<u>1,148,488</u>
Total net assets	<u>\$ 3,129,369</u>	<u>\$ 4,836,906</u>	<u>\$ 7,966,275</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, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General administration	\$ 320,717	\$ 22,276	\$	\$
Judicial	12,840			
Police department	793,079	112,163	7,230	
Fire department	137,880			
City maintenance	257,882			
Streets and drainage	125,445			350,000
Parks and recreation	85,219	14,343		
Hurricane Ike	59,991		56,125	
Interest on long-term debt	<u>46,542</u>			
Total governmental activities	<u>1,839,595</u>	<u>148,782</u>	<u>63,355</u>	<u>350,000</u>
Business-type Activities:				
Water, sewer and sanitation	<u>821,736</u>	<u>794,197</u>		<u>47,493</u>
Total business-type activities	<u>821,736</u>	<u>794,197</u>	<u>-0-</u>	<u>47,493</u>
Total	<u>\$ 2,661,331</u>	<u>\$ 942,979</u>	<u>\$ 63,355</u>	<u>\$ 397,493</u>
General Revenue:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Sales taxes				
Franchise fees				
Investment earnings				
Insurance proceeds				
Miscellaneous				
Total general revenues				
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
\$( 298,441)	\$	\$( 298,441)
( 12,840)		( 12,840)
( 673,686)		( 673,686)
( 137,880)		( 137,880)
( 257,882)		( 257,882)
224,555		224,555
( 70,876)		( 70,876)
( 3,866)		( 3,866)
<u>( 46,542)</u>		<u>( 46,542)</u>
<u>( 1,277,458)</u>	<u>-0-</u>	<u>( 1,277,458)</u>
	19,954	19,954
<u>-0-</u>	<u>19,954</u>	<u>19,954</u>
<u>( 1,277,458)</u>	<u>19,954</u>	<u>( 1,257,504)</u>
826,226		826,226
81,360		81,360
317,227		317,227
156,309		156,309
9,659	3,826	13,485
	44,882	44,882
<u>26,843</u>		<u>26,843</u>
<u>1,417,624</u>	<u>48,708</u>	<u>1,466,332</u>
140,166	68,662	208,828
<u>2,989,203</u>	<u>4,768,244</u>	<u>7,757,447</u>
<u>\$ 3,129,369</u>	<u>\$ 4,836,906</u>	<u>\$ 7,966,275</u>

CITY OF RICHWOOD

Richwood, Texas

BALANCE SHEET  
GOVERNMENTAL FUNDS

September 30, 2009

	General Fund	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 335,847	\$ 12,816	\$ 348,663
Investments	337,995	13,749	351,744
Receivables:			
Property taxes (net)	20,774	2,190	22,964
Sales taxes	43,822		43,822
Other governments	50,502	240	50,742
Accrued interest	166	18	184
Other	21,349		21,349
Due from other funds	<u>140,000</u>		<u>140,000</u>
Total assets	<u>\$ 950,455</u>	<u>\$ 29,013</u>	<u>\$ 979,468</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities:</u>			
Accounts payable and accrued expenditures	\$ 45,447	\$	\$ 45,447
Due to other funds	2,801		2,801
Deferred revenue	<u>31,050</u>	<u>1,956</u>	<u>33,006</u>
Total liabilities	<u>79,298</u>	<u>1,956</u>	<u>81,254</u>
<u>Fund Balance:</u>			
<u>Reserved For:</u>			
Encumbrances	3,637		3,637
Debt service		27,057	27,057
Court security and technology	17,441		17,441
Relocation of water and sewer lines	140,000		140,000
<u>Unreserved:</u>			
<u>Designated For:</u>			
Insurance	16,096		16,096
Capital improvement	92,857		92,857
Equipment replacement	112,967		112,967
Undesignated	<u>488,159</u>		<u>488,159</u>
Total fund balances	<u>871,157</u>	<u>27,057</u>	<u>898,214</u>
Total liabilities and fund balances	<u>\$ 950,455</u>	<u>\$ 29,013</u>	<u>\$ 979,468</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, 2009

Total fund balances – governmental funds balance sheet	\$ 898,214
<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 \$ 6,105,816 in assets less \$ 3,120,519 in accumulated depreciation.	2,985,297
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 \$ 18,522 and \$ 1,956, respectively.	20,478
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 61,728, net of allowance of \$ 49,420.	12,308
Payables for bond principal is not reported in the funds.	( 785,000 )
Payables for bond interest are not reported in the funds.	( 1,928 )
Net assets of governmental activities – statement of net assets.	<u>\$ 3,129,369</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, 2009

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes:			
Property taxes	\$ 822,919	\$ 81,046	\$ 903,965
Sales taxes	317,227		317,227
Franchise fees	156,309		156,309
Revenue producing facilities	14,343		14,343
Fines and fees	117,153		117,153
Licenses and permits	22,276		22,276
Investment income	9,495	164	9,659
Intergovernmental	63,355		63,355
Miscellaneous	<u>26,843</u>		<u>26,843</u>
Total revenues	<u>1,549,920</u>	<u>81,210</u>	<u>1,631,130</u>
Expenditures:			
Current:			
General administration	312,694		312,694
Judicial	12,840		12,840
Police department	751,501		751,501
Fire department	83,134		83,134
City maintenance	240,329		240,329
Streets and drainage	11,132		11,132
Parks and recreation	59,734		59,734
Hurricane Ike expenditures	59,991		59,991
Capital outlay	87,294		87,294
Debt Service:			
Principal retirement		30,000	30,000
Interest and agent fees		<u>46,614</u>	<u>46,614</u>
Total expenditures	<u>1,618,649</u>	<u>76,614</u>	<u>1,695,263</u>
Net changes in fund balances	( 68,729)	4,596	( 64,133)
Fund balances – beginning	<u>939,886</u>	<u>22,461</u>	<u>962,347</u>
Fund balances - ending	<u>\$ 871,157</u>	<u>\$ 27,057</u>	<u>\$ 898,214</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 GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Net change in fund balances – total governmental funds	\$( 64,133)
<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 \$ 261,698 exceeded capital outlays \$ 87,294 in the current period.	( 174,404)
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 and the debt service fund decreased by \$ 3,307 and \$ 314, respectively.	3,621
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 \$ 30,000.	30,000
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.	72
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 \$ 4,990.	( 4,990)
Capital contributions 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 \$ 350,000.	<u>350,000</u>
Change in net assets of governmental activities	<u>\$ 140,166</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, 2009

	Enterprise Fund
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 272,783
Investments	43,741
Utility accounts receivable (less allowance for uncollectibles)	152,303
Due from other governments	47,493
Other receivables	875
Accrued interest receivable	<u>51</u>
	<u>517,246</u>
Current Restricted Assets:	
Cash and cash equivalents	209,325
Investments	228,900
Due from other funds	2,801
Accrued interest receivable	249
Bond issuance costs (current)	<u>1,027</u>
Total current restricted assets	<u>442,302</u>
Total current assets	<u>959,548</u>
Noncurrent Assets:	
Bond issuance costs (net of current and accumulated amortization of \$ 5,351) - restricted	<u>15,403</u>
Capital Assets:	
Property, plant and equipment	8,015,255
Less accumulated depreciation	<u>(3,228,808)</u>
Total capital assets (net of accumulated depreciation)	<u>4,786,447</u>
Total noncurrent assets	<u>4,801,850</u>
Total assets	<u>5,761,398</u>

(continued)

	<u>Enterprise Fund</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ <u>109,667</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	7,151
Due to other funds – current	12,775
Revenue bonds payable – current	34,000
Customer deposits	<u>67,674</u>
Total current liabilities payable from restricted assets	<u>121,600</u>
Total current liabilities	<u>231,267</u>
Noncurrent Liabilities:	
Due to other funds	127,225
Revenue bonds payable - net	<u>566,000</u>
Total noncurrent liabilities	<u>693,225</u>
Total liabilities	<u>924,492</u>
Net Assets:	
Invested in capital assets, net of related debt	4,046,447
Restricted For:	
Revenue bond retirement	377,956
Capital construction	4,924
Unrestricted	<u>407,579</u>
Total net assets	<u>\$ 4,836,906</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, 2009

	Enterprise Fund
Operating Revenues:	
Water service	\$ 397,750
Sewer fees	349,141
Garbage fees	10,017
Delinquent charges	16,705
Taps and reconnect fees	16,026
Miscellaneous	<u>4,558</u>
Total operating revenues	<u>794,197</u>
Operating Expenses:	
Personnel costs	180,310
Sewer treatment plant operations	124,885
Water costs – BWA	135,153
Utilities and telephone	49,742
Repairs and maintenance	75,750
Supplies	19,960
Miscellaneous	<u>14,051</u>
Operating expenses before depreciation	599,851
Depreciation	<u>189,712</u>
Total operating expenses	<u>789,563</u>
Operating income (loss)	<u>4,634</u>
Non-Operating Revenues (Expenses):	
Insurance proceed	44,882
Investment income	3,826
Interest expense and agent fees	<u>( 32,173 )</u>
Total non-operating revenues (expenses)	<u>16,535</u>
Income (loss) before contributions	21,169
Capital contributions from other governments	<u>47,493</u>
Change in net assets	68,662
Net assets at beginning of year	<u>4,768,244</u>
Net assets at end of year	\$ <u><u>4,836,906</u></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 TYPE - ENTERPRISE FUND**

For the Year Ended September 30, 2009

	<u>Enterprise Fund</u>
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 763,297
Receipts from other government	10,690
Payments to other funds	125,245
Payments to suppliers	( 403,702)
Payments to employees	( 180,310)
Net cash provided by operating activities	<u>315,220</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	( 198,996)
Bond principal payments	( 34,000)
Insurance proceed	44,882
Interest and fiscal charge payments	( 31,703)
Net cash provided by (used for) capital and related financing activities	<u>( 219,817)</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	147,514
Purchase of investments	( 272,641)
Interest received	<u>4,122</u>
Net cash provided by (used for) investing activities	<u>( 121,005)</u>
Net decrease in cash and cash equivalents	( 25,602)
Cash and cash equivalents at the beginning of year	<u>507,710</u>
Cash and cash equivalents at the end of the year	<u>\$ 482,108</u>

(continued)

**CITY OF RICHWOOD**  
Richwood, Texas

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

For the Year Ended September 30, 2009

	<u>Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income (loss)	\$ <u>4,634</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	189,712
(Increase) decrease in accounts receivable	( 34,363)
(Increase) decrease in due from other government	10,690
Increase (decrease) in accounts payable	15,839
Increase (decrease) in due to other funds	125,245
Increase (decrease) in customer deposits	<u>3,463</u>
Total adjustments	<u>310,586</u>
Net cash provided by operating activities	<u>\$ 315,220</u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from other governments	\$ 47,493
Assets acquired from contributions	<u>( 47,493)</u>
Net effect of non-cash transactions	<u>\$ -0-</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, 2009

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# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

### 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, 2009

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, 2009

### 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. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the City's financial statements.

**CITY OF RICHWOOD**  
Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The statement was implemented and did not have a material effect on the City's financial statements.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 52, "Land and Other Real Estate Held as Investments by Endowments", was issued November 2007. This statement does not apply to the City as it holds not endowment funds. This statement is effective for periods beginning after June 15, 2008. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City since it does not make direct investments in derivative instruments.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

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

#### New Pronouncements - Continued

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 management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

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 effect 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 effect on the City's financial statements.

#### 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.

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 \$ 3,637 at September 30, 2009.

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

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

#### 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, 2009 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.

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, 2009, 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

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

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

#### 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, 2008, upon which the levy for the 2008-09 fiscal year was based, was \$ 121,191,215. 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, 2009, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.631540 and \$ 0.062120 per \$ 100 valuation, respectively, for a total of \$ 0.693660 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2009 were 99.30% 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, 2009, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 20,774 and \$ 2,190 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).

**CITY OF RICHWOOD**  
Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2009

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

**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.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**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, 2009, are as follows:

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

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

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 425	\$	\$ 425
Financial Institution Deposits:			
Demand deposits	52,491	8,986	61,477
Certificates of deposit	111,947	146,051	257,998
Local Government Investment Pool:			
Texpool	<u>456,583</u>	<u>54,288</u>	<u>510,871</u>
	<u>621,446</u>	<u>209,325</u>	<u>830,771</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	143,704	156,141	299,845
Held by Broker Dealers:			
Certificates of deposit	251,781	72,642	324,423
U.S. Government securities	<u>                    </u>	<u>117</u>	<u>117</u>
	<u>395,485</u>	<u>228,900</u>	<u>624,385</u>
Total	<u>\$ 1,016,931</u>	<u>\$ 438,225</u>	<u>\$ 1,455,156</u>

**Deposits**

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, the carrying amount of the City's deposits was \$ 943,743, while the financial institution balances totaled \$ 991,255. Of the financial institution balances, \$ 776,835 was covered by federal depository insurance, \$ 31,264 was covered by SIPC coverage, and \$ 183,156 was covered by collateral held by the City's agent in the City's name.

**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

**CITY OF RICHWOOD**  
Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

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.

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.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

At September 30, 2009 Texpool had a weighted average maturity of 49 days. Although Texpool portfolio had a weighted average maturity of 49 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, 2009.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Certificate of Deposit	11-01-09	0.50%	2.3	\$ 101,245
Certificate of Deposit	10-09-09	0.50%	0.4	67,275
Certificate of Deposit	02-01-10	1.20%	10.8	120,912
Certificate of Deposit	02-15-10	1.10%	5.6	56,845
Certificate of Deposit	12-22-09	1.15%	5.3	89,045
Certificate of Deposit	03-22-10	1.55%	15.2	122,520
Certificate of Deposit	04-29-14	3.35%	217.1	180,932
Certificate of Deposit	04-29-13	3.15%	37.4	39,892
MP Certificate of Deposit	04-15-14	N/A	<u>123.3</u>	<u>103,600</u>
Total Certificates of Deposit			417.4	882,266
Local Government Investment Pool:				
Texpool	N/A	Varies daily	0.4	510,871
U.S. Instrumentality Securities:				
FNMA	05-25-20	7.50%	<u>0.3</u>	<u>117</u>
Total investments			<u>418.1</u>	<u>\$ 1,393,254</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.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

Credit Risk - As of September 30, 2009, the LGIPs (which represent approximately 36.67% of the unrestricted portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, while the majority of the remainder, 63.33%, is invested in fully secured certificates of deposit.

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, 2009, and holds no direct investments in derivatives at September 30, 2009.

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	\$	8,747
Debt Service Fund		<u>1,220</u>
Total	\$	<u>9,967</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, 2009 was \$ 49,420.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

**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, 2009, 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)	\$ 18,522	\$
Delinquent property taxes receivable (debt service fund)	1,956	
Other	<u>                    </u>	<u>12,528</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 20,478</u>	<u>\$ 12,528</u>

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund Receivables and Payables:

Interfund balances at September 30, 2009 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise fund	\$ <u>140,000</u>	\$ <u>2,801</u>
Total general fund	<u>140,000</u>	<u>2,801</u>
Enterprise Fund:		
General fund	<u>2,801</u>	<u>140,000</u>
Total enterprise fund	<u>2,801</u>	<u>140,000</u>
Totals	<u>\$ 142,801</u>	<u>\$ 142,801</u>

The \$ 140,000 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>
2010	\$ 12,775	\$ 2,683	\$ 15,458
2011	13,033	2,426	15,459
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>\$ 140,000</u>	<u>\$ 14,583</u>	<u>\$ 154,583</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009, was as follows:

	Balance 10/01/08	Additions	Retirements	Balance 09/30/09
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			396,639
Equipment	971,187	384,485		1,355,672
Infrastructure	<u>4,033,756</u>	<u>52,809</u>		<u>4,086,565</u>
Total capital assets, being depreciated	<u>5,401,582</u>	<u>437,294</u>	<u>-0-</u>	<u>5,838,876</u>
Less Accumulated Depreciation For:				
Buildings	249,363	13,975		263,338
Equipment	671,052	133,410		804,462
Infrastructure	<u>1,938,406</u>	<u>114,313</u>		<u>2,052,719</u>
Total accumulated depreciation	<u>2,858,821</u>	<u>261,698</u>	<u>-0-</u>	<u>3,120,519</u>
Total capital assets, being depreciated, net	<u>2,542,761</u>	<u>175,596</u>	<u>-0-</u>	<u>2,718,357</u>
Governmental activities capital assets, net	<u>\$ 2,809,701</u>	<u>\$ 175,596</u>	<u>\$ -0-</u>	<u>\$ 2,985,297</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 122,580	\$	\$	\$ 122,580
Total capital assets, not being depreciated	<u>122,580</u>	<u>-0-</u>	<u>-0-</u>	<u>122,580</u>
Capital Assets, Being Depreciated:				
Buildings	189,000	52,770	58,000	183,770
Equipment	211,664			211,664
Infrastructure	<u>7,351,015</u>	<u>146,226</u>		<u>7,497,241</u>
Total capital assets, being depreciated	<u>7,751,679</u>	<u>198,996</u>	<u>58,000</u>	<u>7,892,675</u>
Less Accumulated Depreciation For:				
Buildings	123,500	4,594	58,000	70,094
Equipment	171,620	13,492		185,112
Infrastructure	<u>2,801,976</u>	<u>171,626</u>		<u>2,973,602</u>
Total accumulated depreciation	<u>3,097,096</u>	<u>189,712</u>	<u>58,000</u>	<u>3,228,808</u>
Total capital assets, being depreciated, net	<u>4,654,583</u>	<u>9,284</u>	<u>-0-</u>	<u>4,663,867</u>
Business-type activities capital assets, net	<u>\$ 4,777,163</u>	<u>\$ 9,284</u>	<u>\$ -0-</u>	<u>\$ 4,786,447</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

**NOTE 6 - CAPITAL ASSETS - Continued**

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

**Governmental Activities:**

General administration	\$ 8,023
City maintenance	17,553
Streets and drainage	114,313
Police department	41,578
Fire department	54,746
Parks and recreation	<u>25,485</u>

Total depreciation expense-governmental activities \$ 261,698

**Business-type Activities:**

Water and sewer \$ 189,712

Total depreciation expense-business-type activities \$ 189,712

**Contributed Capital**

During the year ended September 30, 2009 the City received contributed capital in the amount of \$ 397,493, in which \$ 350,000 was from Volunteer Fire Department, and \$ 47,493 was from other governments. Of the total amount, \$ 350,000 is reported within governmental activities and \$ 47,493 is reported within the business-type activities as water system improvements.

**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.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2009, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/09
		Issued	Maturity	Callable	
Certificates of Obligation:					
Combination Tax and Revenue, Series 1999	5.20- 7.75	1999	2024	2009	\$ <u>785,000</u>
Total					\$ <u>785,000</u>

General obligation bond transactions for the year ended September 30, 2009 were as follows:

Bonds outstanding, October 1, 2008	\$ 815,000
Maturities	<u>( 30,000)</u>
Bonds outstanding, September 30, 2009	\$ <u>785,000</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonds\Certificates of Obligation - Continued

The following is a summary of general obligation bond requirements for governmental activities by year as of September 30, 2009:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 35,000	\$ 43,983	\$ 78,983
2011	35,000	42,163	77,163
2012	40,000	40,325	80,325
2013	40,000	38,185	78,185
2014	40,000	35,985	75,985
2015-2019	255,000	141,945	396,945
2020-2024	<u>340,000</u>	<u>60,664</u>	<u>400,664</u>
Total	<u>\$ 785,000</u>	<u>\$ 403,250</u>	<u>\$ 1,188,250</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.

Revenue bonds/certificates of obligation payable for business-type activities at September 30, 2009, are summarized as follows:

	<u>Interest Rates %</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09/30/08</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Revenue Bonds					
Series 1980	5.00	1980	2019	1990	\$ 165,000
Combination Tax and Revenue Certificates of Obligation-	2.75-				
Series 2004	5.70	2004	2025	N/A	<u>435,000</u>
Total					<u>\$ 600,000</u>

Revenue bond/certificates of obligation transactions for the year ended September 30, 2009 were as follows:

Bonds outstanding, October 1, 2008	\$ 634,000
Maturities	<u>( 34,000 )</u>
Bonds outstanding, September 30, 2009	<u>\$ 600,000</u>

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation - Continued

The following is a summary of revenue bond/certificates of obligation requirements for business-type activities by year as of September 30, 2009:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 34,000	\$ 29,922	\$ 63,922
2011	35,000	28,363	63,363
2012	36,000	26,718	62,718
2013	37,000	24,997	61,997
2014	37,000	23,228	60,228
2015-2019	216,000	84,356	300,356
2020-2024	165,000	35,270	200,270
2025	<u>40,000</u>	<u>1,140</u>	<u>41,140</u>
Total	<u>\$ 600,000</u>	<u>\$ 253,994</u>	<u>\$ 853,994</u>

Transactions for the year ended September 30, 2009 are summarized as follows:

	<u>Balance 10/01/08</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/09</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
Certificates of obligation	\$ 815,000	\$	\$ 30,000	\$ 785,000	\$ 35,000
Component of Bonded Debt:					
Accrued interest payable	<u>2,000</u>	<u>1,928</u>	<u>2,000</u>	<u>1,928</u>	<u>1,928</u>
Total governmental activities	<u>817,000</u>	<u>1,928</u>	<u>32,000</u>	<u>786,928</u>	<u>36,928</u>
Business Type Activities:					
Certificates of obligation	455,000		20,000	435,000	20,000
Revenue bonds	179,000		14,000	165,000	14,000
Component of Bonded Debt:					
Accrued interest payable	<u>7,708</u>	<u>7,151</u>	<u>7,708</u>	<u>7,151</u>	<u>7,151</u>
Total business type activities	641,708	7,151	41,708	607,151	41,151
Less Portion Payable from Restricted Assets:					
Certificate of obligation	20,000			20,000	20,000
Revenue bonds payable	14,000			14,000	14,000
Accrued interest payable	<u>7,708</u>	<u>7,151</u>	<u>7,708</u>	<u>7,151</u>	<u>7,151</u>
Net business-type activities	<u>600,000</u>	<u>0</u>	<u>34,000</u>	<u>566,000</u>	<u>-0-</u>
Total government (net)	<u>\$ 1,417,000</u>	<u>\$ 1,928</u>	<u>\$ 66,000</u>	<u>\$ 1,352,928</u>	<u>\$ 36,928</u>

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

### NOTE 8 - LEASES

#### Capital Leases

The City has no capital leases as of September 30, 2009.

#### Operating Leases

In February 2008, 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. Lease expenditures for the year ended September 30, 2009 were \$ 3,760.

### 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, 2009, the City of Richwood's portion of these expenses was determined to be 12.93 percent, which amounted to \$ 100,578. Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions) which amounted to \$ 24,307 for the year ended September 30, 2009. The City of Clute maintains both budgetary and accounting responsibility over these operations.

### NOTE 10 - PENSION PLAN

#### Plan Description

The City provides pension benefits for all of its full-time employees except volunteer firefighters, through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

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

# CITY OF RICHWOOD

Richwood, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

### NOTE 10 - PENSION PLAN - Continued

#### Plan Description - Continued

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

#### Contributions

The contribution rate for the employees is 5%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 30-year period. The remaining open amortization period is 30 years. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective for rates beginning January 2010).

The last actuarial valuation was conducted on December 31, 2008. Significant actuarial assumptions used include (a) a level percent of payroll amortization method, (b) projected salary increases varies by age and services, (c) a 3.0% inflation adjustment, (d) 2.1% (3.0% cpi) cost of living adjustment, (e) an amortized cost asset valuation method, and (f) a rate of return on the investments of 7.5 percent per year.

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

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

**NOTE 10 - PENSION PLAN - Continued**

**Funding Status and Progress**

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date		12/31/08
Actuarial Value of Assets		\$ 1,133,357
Actuarial Accrued Liability		\$ 1,683,022
Percentage Funded		67.3%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		\$ 549,665
Annual Covered Payroll		\$ 728,840
UAAL as a Percentage of Covered Payroll		75.4%
Net Pension Obligation (NPO) at the Beginning of Period		\$ -0-
Annual Pension Cost:		
Annual required contribution (ARC)	\$ 94,078	
Interest on NPO	-0-	
Adjustment to the ARC	-0-	
Total		\$ 94,078
Contribution Made		\$ 94,078
Increase in NPO		-0-
NPO at the end of the period		\$ -0-

The schedule of actuarial liabilities and funding progress for the years ended December 31, 2006 to 2008, are as follows:

<u>Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>
2006	\$ 1,173,256	\$ 1,399,873	83.81%	\$ 226,617
2007	1,158,207	1,634,763	70.80%	476,556
2008	1,133,357	1,683,022	67.30%	549,665

<u>Year</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>	<u>Annual Required Contribution (ARC)</u>	<u>ARC as a Percentage of Covered Payroll</u>
2006	\$ 549,852	41.21%	\$ 52,080	9.50%
2007	605,645	78.70%	54,716	9.03%
2008	728,840	75.40%	94,078	12.91%

The pension liability at transition was determined in accordance with the provisions of GASB Statement No. 27 and was zero. Amounts provided prior to adoption of GASB Statement No. 27 are amounts provided under GASB Statement No. 5.

**CITY OF RICHWOOD**

Richwood, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

NOTE 11 - 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 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2009, the City incurred expenditures in excess of appropriation within the following funds:

General Fund	\$ 75,838
Enterprise Fund	28,079

These variances resulted from Hurricane Ike and underestimation of year-end accruals as of September 30, 2009.

**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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 860,453	\$ 860,453	\$ 822,919	\$( 37,534)
Sales taxes	288,608	288,608	317,227	28,619
Franchise fees	162,000	162,000	156,309	( 5,691)
Revenue producing facilities	20,000	20,000	14,343	( 5,657)
Fines and fees	90,000	90,000	117,153	27,153
Licenses and permits	51,000	51,000	22,276	( 28,724)
Investment income	25,000	25,000	9,495	( 15,505)
Intergovernmental	18,500	25,750	63,355	37,605
Miscellaneous	<u>20,000</u>	<u>20,000</u>	<u>26,843</u>	<u>6,843</u>
Total revenues	<u>1,535,561</u>	<u>1,542,811</u>	<u>1,549,920</u>	<u>7,109</u>
Expenditures:				
Current:				
General administration	278,126	278,126	312,694	( 34,568)
Judicial	15,700	15,700	12,840	2,860
Police department	779,616	780,116	751,501	28,615
Fire department	73,594	79,494	83,134	( 3,640)
City maintenance	227,000	232,150	240,329	( 8,179)
Streets and drainage	5,000	5,000	11,132	( 6,132)
Parks and recreation	46,025	48,125	59,734	( 11,609)
Hurricane Ike			59,991	( 59,991)
Capital outlay	<u>110,500</u>	<u>104,100</u>	<u>87,294</u>	<u>16,806</u>
Total expenditures	<u>1,535,561</u>	<u>1,542,811</u>	<u>1,618,649</u>	<u>( 75,838)</u>
Net changes in fund balances	-0-	-0-	( 68,729)	( 68,729)
Fund balances, beginning	<u>939,886</u>	<u>939,886</u>	<u>939,886</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 939,886</u>	<u>\$ 939,886</u>	<u>\$ 871,157</u>	<u>\$( 68,729)</u>

**CITY OF RICHWOOD**

Richwood, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS  
LAST THREE FISCAL YEARS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets** (a)</u>	<u>Actuarial Accrued Liability* (AAL)- (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Percentage Funded (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
2006	\$ 1,173,256	\$ 1,399,873	\$ 226,617	88.30%	\$ 549,852	41.21%
2007	1,158,207	1,634,763	476,556	70.80%	605,645	78.70%
2008	1,133,357	1,683,022	549,665	67.30%	728,840	75.40%

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

\*\* Assets are stated at cost as of December 31 of the preceding year.

**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, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 76,133	\$ 76,578	\$ 81,046	\$ 4,468
Interest	<u>420</u>	<u>55</u>	<u>164</u>	<u>109</u>
Total revenues	<u>76,553</u>	<u>76,633</u>	<u>81,210</u>	<u>4,577</u>
Expenditures:				
Debt Service:				
Principal	30,000	30,000	30,000	-0-
Interest and fiscal charges	<u>46,133</u>	<u>46,633</u>	<u>46,614</u>	<u>19</u>
Total expenditures	<u>76,133</u>	<u>76,633</u>	<u>76,614</u>	<u>19</u>
Excess of revenues over (under) expenditures	420	-0-	4,596	4,596
Fund balances, beginning	<u>22,461</u>	<u>22,461</u>	<u>22,461</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 22,881</u>	<u>\$ 22,461</u>	<u>\$ 27,057</u>	<u>\$ 4,596</u>

**CITY OF RICHWOOD**

Richwood, Texas

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

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Water fees	\$ 363,259	\$ 363,259	\$ 397,750	\$ 34,491
Sewer fees	324,475	324,475	349,141	24,666
Garbage fees	12,000	12,000	10,017	( 1,983)
Delinquent charges	30,000	30,000	16,705	( 13,295)
Tap and reconnect fees	22,000	22,000	16,026	( 5,974)
Miscellaneous	17,000	9,750	4,558	( 5,192)
Total revenues	<u>768,734</u>	<u>761,484</u>	<u>794,197</u>	<u>32,713</u>
Operating Expenses:				
Personnel costs	178,169	178,669	180,310	( 1,641)
Sewer treatment plant operations	150,000	150,000	124,885	25,115
Water costs – BWA	110,000	110,000	135,153	( 25,153)
Utilities and telephone	36,500	37,000	49,742	( 12,742)
Repairs and maintenance	54,000	55,750	75,750	( 20,000)
Supplies	22,150	22,150	19,960	2,190
Miscellaneous	27,500	17,500	14,051	3,449
Operating expenses before depreciation	578,319	571,069	599,851	( 28,782)
Depreciation	<u>190,415</u>	<u>190,415</u>	<u>189,712</u>	<u>703</u>
Total operating expenses	<u>768,734</u>	<u>761,484</u>	<u>789,563</u>	<u>( 28,079)</u>
Operating income (loss)	<u>-0-</u>	<u>-0-</u>	<u>4,634</u>	<u>4,634</u>
Non-Operating Revenues (Expenses):				
Insurance proceeds			44,882	44,882
Investment income			3,826	3,826
Interest expense and agent fees			( 32,173)	( 32,173)
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>	<u>16,535</u>	<u>16,535</u>
Income (loss) before contributions	<u>-0-</u>	<u>-0-</u>	<u>21,169</u>	<u>21,169</u>
Capital contributions from other governments			47,493	47,493
Change in net assets	<u>-0-</u>	<u>-0-</u>	<u>68,662</u>	<u>68,662</u>
Net assets, beginning	<u>4,768,244</u>	<u>4,768,244</u>	<u>4,768,244</u>	<u>-0-</u>
Net assets, ending	<u>\$ 4,768,244</u>	<u>\$ 4,768,244</u>	<u>\$ 4,836,906</u>	<u>\$ 68,662</u>