

**CITY OF EL CAMPO, TEXAS**  
*COMPREHENSIVE ANNUAL FINANCIAL REPORT*  
*For the fiscal year ended September 30, 2010*

Courtney Sladek  
*Director of Finance*

Mindi R. Snyder  
*City Manager*

Issued By:  
Finance Department

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## **INTRODUCTORY SECTION**



February 28, 2011

The Honorable Mayor, Members of  
the City Council, and Citizens of  
the City of El Campo, Texas

The Comprehensive Annual Financial Report of the City of El Campo, Texas, hereinafter referred to as the "City", for the fiscal year ended September 30, 2010, is hereby submitted. It is published to provide to the City Council, to representatives of financial institutions, and to our citizens and other interested persons, detailed information concerning the financial condition of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activities have been included.

Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City's MD&A can be found immediately following the independent auditor's report.

#### **CITY PROFILE**

The City has a home-rule Council-Manager form of government. The elected body is made up of a mayor and six City Council members. The Mayor and City Council members are all elected for staggered two-year terms. The City Manager is appointed by the City Council and is responsible for implementation of City Council policy and all day-to-day operations of the City.

The City Council appoints many residents, who have volunteered their expertise, experience, and time to serve on various boards and commissions. These standing boards and commissions make recommendations relative to special projects.

A full range of municipal services is provided by the City including public safety (police, fire protection, and emergency medical services); water and wastewater services; public improvements; repair and maintenance of infrastructure; recreational and community activities; planning and zoning; and general administrative services. This report includes all funds of the City government. The financial statements of the City Development Corporation of El Campo, Inc. and the El Campo Volunteer Fire Department are also reported herein as discretely presented component units of the City based upon standards established by the Governmental Accounting Standards Board (see Note 1 to the financial statements).

The Honorable Mayor, Members of  
the City Council, and Citizens of  
the City of El Campo, Texas

## **ECONOMIC CONDITION AND OUTLOOK**

The City is located in the gulf coast region of southeast Texas and is the largest City in Wharton County with an estimated population of 12,500. It is located on U.S. Highway 59 and State Highway 71, approximately 72 miles southwest of Houston. U.S. Highway 59 is one of the major transportation arteries that ties the United States to Mexico and it is currently being studied for conversion to an interstate highway that would link Canada to Mexico.

One of the economy's mainstays is agriculture. Wharton County has consistently ranked as one of the largest rice producing counties in the state and nation. Several major regional agricultural facilities are located in the City, including operations for product storage, milling, transportation, and marketing as well as two farm cooperatives that provide direct sales, service and marketing assistance to area farmers. Oil and gas production is also an important contributor to the local economy and in recent years the aquaculture industry has become an important factor as well.

El Campo population and economy remains stable, although some areas of the economy have slowed. This slower growth has a direct impact on the resources available to the City to provide services to the community. Indicators of growth include population increases, building activity, unemployment rate, ad valorem tax revenues, and sales tax revenues.

The City of El Campo has experienced some of the economic downturn faced by other areas in Texas and the nation, as seen in the first decrease in annual sales tax revenue in recent history. The impact resulted in mid-year budget amendments to address the projected revenue shortfall and the end result was not as dramatic as first anticipated. Part of this is due to the fact that the local economy continues to be diversified in areas such as agricultural activity and oil and gas production and not as dependent on retail as some areas.

Revenue growth appears equal to the costs of maintaining the current service levels throughout the City, however the margin is much smaller than in prior years. Staff continues to monitor various indicators of economic and fiscal health of the community. Monitoring is also done in order to better respond to economic conditions that may indicate a weakening in the local economy. Any such weakening could adversely affect the fiscal health of the City. If the economy does have an adverse effect on the City's fiscal health, choices on revenues and expenditures will have to be made to address the impact. This approach is important to ensure that any slow down in growth, or change in economic conditions does not adversely affect the financial position of the City.

The City still maintains fund balance reserves at levels that allow for capital projects to be addressed. The City Council has continued the policy that excess above 3 months of operations should be designated for capital and that has assisted in maintaining a lower ad valorem tax rate and reducing the scope of the debt issuances.

## **MAJOR INITIATIVES**

The 2009-2010 fiscal year for the City was one that included several internal accomplishments. The following were goals of the FY09-10 Adopted Budget: focus on government policy that is responsive to its employees and citizens, maintain a deliberate planning process, provide resources to assure public safety, implement storm drainage system, provide recreational systems and maintain existing parks, provide adequate utilities for the citizens and visitors of the City of El Campo.

The FY10 Adopted budget included increases for all positions and mandated increases in retirement contributions. In addition to the existing work programs, street improvements, the replacement of aging public safety equipment, additional water and sewer equipment were all funded.

The Honorable Mayor, Members of  
the City Council, and Citizens of  
the City of El Campo, Texas

The FY10 budget modernized the technological capacity to include online payments, credit card payments and other services, including the funding for a complete renovation of the City's website. The City completed the construction of a new animal shelter and renovation of the police station. In addition, the FY10 budget included three police units, brought on-line later in the FY to allow for deferral of new units, to continue providing quality police protection.

The FY10 budget also included an additional \$10,000 for street repair/construction. In FY10, the City upgraded parks and playground equipment, increased maintenance in parks and purchased new park equipment. The City resurfaced the tennis courts and converted courts to a basketball court in Friendship Park. Finally, the FY10 Budget included funding to continue water and sewer upgrades in the older parts of the City.

Over the next five years, the City will invest in drainage, streets, parks, water and wastewater projects throughout its capital improvements program. Listed below are goals and short and long term objectives:

Long range goals and objectives:

1. *Create an aesthetic and physically appealing character throughout the community.* Included in the Adopted Budget were additional funds to increase efforts for demolition of abandoned buildings.
2. *Streets and Drainage. Upgrade and improve existing street infrastructure to meet or exceed minimum standards by 2030.* The FY11 Adopted budget included an additional \$100,000 for seal coating/overlaying as recommended by the City's Comprehensive Plan.
3. *Parks and Recreation. Maintain and expand the parks and recreation system for long-term use and enjoyment.* In FY11, the City will upgrade parks and playground equipment, increase maintenance in parks and purchase new park equipment. The total committed to new equipment in FY11 is \$15,000.
4. *Utilities. Assure quality standards for maintenance and operation of all city utilities in order to provide for the long-term needs of the citizens.* The City will continue water and sewer upgrades in the older parts of the City. The City has increased the maintenance budget for the aging utility infrastructure. Funds are also budgeted to continue to replace sewer infrastructure.

The City initiated and completed the annexation of 129 acres in 2009. Water and sewer services will be offered to all annexed residents in late Spring 2011. The resurfacing of Meadow Lane was complete in the fall of 2010. Also included in the projects for 2010: purchase and installation of a clarifier at the Wastewater Treatment Plant.

Current projects include water and sewer infrastructure for recently annexed areas.

## FINANCIAL INFORMATION

The financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board.

Internal accounting controls are established by management to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. As well, they are designed to provide reasonable assurance as to the reliability of financial records for

The Honorable Mayor, Members of  
the City Council, and Citizens of  
the City of El Campo, Texas

preparing financial statements and are employed to help maintain accountability for assets. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits expected to be derived and the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, Debt Service Fund, Utility Fund, EMS Fund and Health Insurance Fund are included in this document in their annual appropriated amounts.

### INDEPENDENT AUDIT

This report is prepared in compliance with the legal requirements set forth by Article 3.10 of the Charter of the City of El Campo, Texas, as amended. In addition to fulfilling this legal requirement, this report serves to fully disclose financial data on an annual basis to management, the elected City Council and Mayor, the public, investors, and other interested persons. The firm of Harrison, Waldrop & Uherek, L.L.P., Certified Public Accountants, was engaged by the City to satisfy this requirement.

### CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of El Campo, Texas, for its comprehensive annual financial report for the year ended September 30, 2009. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

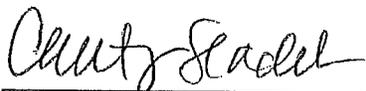
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

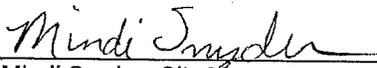
### ACKNOWLEDGMENTS

The preparation of this report could not be accomplished without the efficient and dedicated services of the staff of the Finance Department of the City. We would also like to thank the Mayor and Members of City Council for their interest and support in planning and conducting the financial operations of the City in a progressive and responsible manner.

Respectfully,



Courtney Sladek, Director of Finance



Mindi Snyder, City Manager

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of El Campo  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2009

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

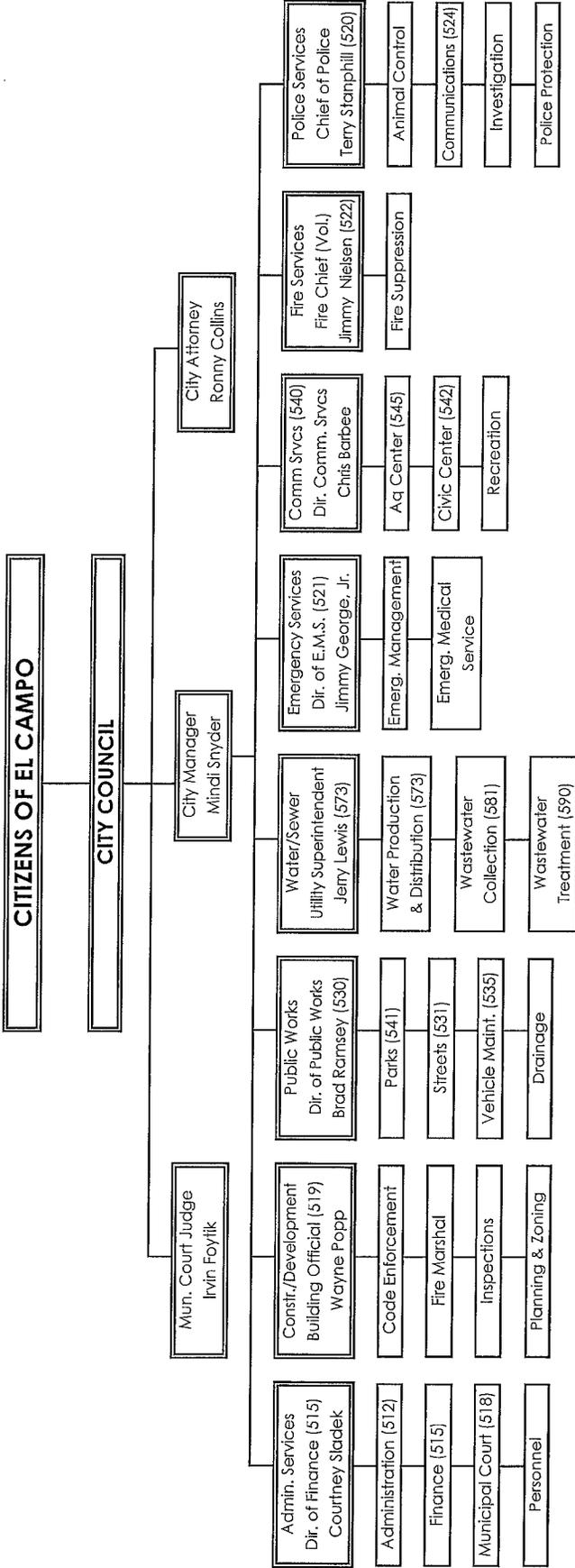


A stylized handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director



**CITY OF EL CAMPO, TEXAS**  
*DIRECTORY OF PRINCIPAL OFFICIALS*  
*September 30, 2010*

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**City Officials**

Richard Young  
Anthony Collins  
Robert Boone  
Charlotte Brown  
Edgar Erwin  
Randy Collins  
Chase Nielsen

**Elective Position**

Mayor  
Mayor Pro-Tem  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member

**Key Staff**

Mindi R. Snyder  
Ronald B. Collins  
Courtney Sladek

**Appointive Position**

City Manager  
City Attorney  
Director of Finance

## **FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of the City Council  
City of El Campo, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of El Campo, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the El Campo Volunteer Fire Department, which statements reflect total assets of \$1,515,087 as of December 31, 2009, and total revenues of \$327,565 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included in the component units column, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards and standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City Development Corporation of El Campo, Inc. and the El Campo Volunteer Fire Department were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Honorable Mayor and Members  
of the City Council

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 59 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Harrison Waldrop + Uhenek, LLP.*

February 23, 2011

As management of the City of El Campo, Texas (the "City"), 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, 2010.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2010, by \$27,370,687. Of this amount, \$5,937,488 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$13,124,822 for the fiscal year. The net expense was \$6,667,206.
- During the year, the City's net expenses exceeded general revenues of the governmental activities by \$1,019,346. This represents a 5.72% decrease in net assets from the previous fiscal year as a result of operations.
- At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$4,378,173, a net decrease of \$315,029 in comparison with prior year. The net decrease in fund balance was primarily made up of a decrease of \$490,427 in the General Fund.
- At September 30, 2010, unreserved fund balance for the General Fund was \$3,309,065 or 47.40% of total General Fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

#### **Organization and Flow of Financial Section Information**

##### **Independent Auditors' Report**

*Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.*

##### **Management's Discussion and Analysis**

*This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.*

Pages 3 to 10

##### **Government-wide Financial Statements**

*Provides information on governmental and business-type activities of the primary government.*

Pages 11 to 14

##### **Fund Financial Statements**

*Provides information on the financial position of specific funds of the primary government.*

Pages 15 to 25

##### **Component Unit Financial Statements**

*Provides information on the City's component units.*

Pages 26 to 28

##### **Notes to Financial Statements**

*Provides a summary of significant accounting policies and related disclosures.*

Pages 29 to 58

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Government-wide Financial Statements**

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and interest on long-term debt. The business-type activities of the City include water/wastewater, solid waste, and emergency medical services.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component units of City Development Corporation of El Campo, Inc., and El Campo Volunteer Fire Department. These component units are not included as part of the primary government.

### **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 or proprietary funds.

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

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

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Fund Financial Statements - (Continued)**

The City maintained eleven individual governmental funds during the 2010 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, which is considered a major fund. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Schedules of revenues, expenditures, and changes in fund balances - budget and actual (GAAP basis) have been provided for each of the funds to demonstrate compliance with the appropriated budgets.

The City maintains two types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/wastewater utility service, for its solid waste operations, and for its emergency medical services. The City uses the internal service fund to account for its health plan services. Because these services predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The proprietary fund financial statements provide information for the water/wastewater utility service, for the solid waste operation, and for the emergency medical service, which are considered to be major funds of the City.

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$27,370,687 at the close of the fiscal year 2010.

By far, the largest portion of the City's net assets (76.13%) reflects its investment in capital assets (i.e., land, buildings, infrastructure, and machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of El Campo, Texas**

**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current assets	\$ 5,173,672	\$ 6,027,024	\$ 5,267,551	\$ 4,799,710	\$ 10,441,223	\$ 10,826,734
Capital assets (net)	15,238,958	15,999,011	14,868,458	13,847,654	30,107,416	29,846,665
Other noncurrent assets	131,879	150,159	163,081	117,844	294,960	268,003
<b>Total assets</b>	<b>20,544,509</b>	<b>22,176,194</b>	<b>20,299,090</b>	<b>18,765,208</b>	<b>40,843,599</b>	<b>40,941,402</b>
<b>LIABILITIES</b>						
Current liabilities	825,450	1,130,675	1,182,902	1,105,811	2,008,352	2,236,486
Noncurrent liabilities	2,914,426	3,221,540	8,550,134	7,331,222	11,464,560	10,552,762
<b>Total liabilities</b>	<b>3,739,876</b>	<b>4,352,215</b>	<b>9,733,036</b>	<b>8,437,033</b>	<b>13,472,912</b>	<b>12,789,248</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	12,651,611	13,175,250	8,185,040	6,040,671	20,836,651	19,215,921
Restricted	596,548	293,532	-	-	596,548	293,532
Unrestricted	3,556,474	4,355,197	2,381,014	4,287,504	5,937,488	8,642,701
<b>Total net assets</b>	<b>\$ 16,804,633</b>	<b>\$ 17,823,979</b>	<b>\$ 10,566,054</b>	<b>\$ 10,328,175</b>	<b>\$ 27,370,687</b>	<b>\$ 28,152,154</b>

An additional portion of the City's net assets (2.18%) represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The remaining balance of unrestricted net assets (\$5,937,488) may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the primary government as a whole.

**Governmental activities.** Governmental activities decreased the City's net assets by \$1,019,346. Key elements of this decrease are as follows:

- Charges for services decreased \$144,058 (12.35%). This is due to the creation of the Emergency Medical Services Fund, an enterprise fund, in fiscal year 2010. Fees for ambulance services are recorded in the Emergency Medical Services Fund rather than the General Fund.
- Sales tax revenues decreased \$130,615 (5.70%) due to the slow economy.
- Investment earnings decreased \$97,029 (62.61%) because of low interest rates.
- Public safety expenses decreased \$866,379 (20.64%) primarily due to costs associated with emergency medical services being reported in the Emergency Medical Services Fund beginning in fiscal year 2010.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**Business-type activities.** Business-type activities increased the City's net assets by \$237,879. The key elements of this increase relate to the new Emergency Medical Services Fund and the transfer of the activities relating to it from the Governmental Activities during fiscal year 2010.

City of El Campo, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,022,048	\$ 1,166,106	\$ 4,631,554	\$ 4,350,603	\$ 5,653,602	\$ 5,516,709
Operating grants and contributions	148,542	200,212	655,472	-	804,014	200,212
Capital grants and contributions	-	179,786	-	336,738	-	516,524
General revenues:						
Property taxes	2,641,886	2,627,352	-	-	2,641,886	2,627,352
Sales taxes	2,161,373	2,291,988	-	-	2,161,373	2,291,988
Franchise taxes	603,132	612,731	-	-	603,132	612,731
Other taxes	102,424	127,396	-	-	102,424	127,396
Unrestricted investment earnings	57,935	154,964	23,680	70,809	81,615	225,773
Miscellaneous	295,309	178,636	-	-	295,309	178,636
<b>Total revenues</b>	<u>7,032,649</u>	<u>7,539,171</u>	<u>5,310,706</u>	<u>4,758,150</u>	<u>12,343,355</u>	<u>12,297,321</u>
<b>EXPENSES</b>						
General government	1,700,404	1,730,446	-	-	1,700,404	1,730,446
Public safety	3,331,347	4,197,726	-	-	3,331,347	4,197,726
Public works	1,933,738	2,258,781	-	-	1,933,738	2,258,781
Parks and recreation	745,235	754,293	-	-	745,235	754,293
Interest on long-term debt	144,355	152,972	-	-	144,355	152,972
Utilities	-	-	4,219,111	4,065,879	4,219,111	4,065,879
Emergency medical services	-	-	1,050,632	-	1,050,632	-
<b>Total expenses</b>	<u>7,855,079</u>	<u>9,094,218</u>	<u>5,269,743</u>	<u>4,065,879</u>	<u>13,124,822</u>	<u>13,160,097</u>
Change in net assets before transfers	(822,430)	(1,555,047)	40,963	692,271	(781,467)	(862,776)
Transfers	(196,916)	514,102	196,916	(514,102)	-	-
Change in net assets	(1,019,346)	(1,040,945)	237,879	178,169	(781,467)	(862,776)
Net assets - beginning	17,823,979	18,864,924	10,328,175	10,150,006	28,152,154	29,014,930
Net assets - ending	<u>\$ 16,804,633</u>	<u>\$ 17,823,979</u>	<u>\$ 10,566,054</u>	<u>\$ 10,328,175</u>	<u>\$ 27,370,687</u>	<u>\$ 28,152,154</u>

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## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### **Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,378,173, a decrease of \$315,029 from the prior year.

Approximately 97.60% of this total amount, \$4,273,062, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remaining fund balance of \$105,111 or 2.40% is reserved to indicate that it is not available for new spending because it has already been committed: 1) for deferred expenditures \$10,177; 2) for noncurrent notes receivable \$67,103; and 3) for inventory \$27,831.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$3,309,065. Unreserved fund balance represents 47.40% of total General Fund expenditures. The fund balance of the City's General Fund decreased by \$490,427 during the current fiscal year. This was primarily due to the \$418,146 transfer to the 2007 Bond Fund during fiscal year 2010 for capital expenditures.

### **Proprietary Funds**

The City's proprietary funds, the Utility Fund and the Emergency Medical Services Fund, provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund and the Emergency Medical Services Fund at the end of the current fiscal year amounted to \$2,099,431 and \$281,583, respectively. The net growth for the funds was \$237,879.

Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual fiscal year expenditures in the General Fund were \$86,528 more than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$95,558 for the South Meadow Lane street rehabilitation project.

The fiscal year 2010 budget was amended from the original budget adopted by Council. The following were included in the amendment:

- \$189,730 decrease for sales tax receipt decline in 2010;
- \$60,412 decrease in sales tax contributions to City Development Corporation of El Campo;
- \$22,821 for the City Manager search;
- \$16,734 for residential developer's incentives;
- \$414,820 for the final construction costs associated with the Civic Center remodel; the public safety building remodel and the construction of the animal shelter;
- \$15,482 for the City Manager's retirement compensation;
- Funds to repair and purchase vehicles in both the police and fire departments that have a net effect of \$0 on the budget;
- Across the board operating cost reductions totaling \$42,400;
- \$50,000 decrease to reduce police vehicle purchases from four to two;
- \$25,000 decrease in gas and oil due to cost reductions in 2010; and
- \$72,000 decrease due to the elimination of the Assistant City Manager position.

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## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities amounts to \$30,107,414 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, service delivery system, infrastructure, and construction in progress. The net increase in the City's investment in capital assets was 0.87% (a 4.75% decrease for governmental activities and a 7.37% increase in business-type activities). Major capital asset events during the current fiscal year included the following:

- The net additions to buildings for governmental activities were \$1,056,436. Additions for fiscal year 2010 included the renovations to the police department building and the new animal shelter.
- During fiscal year 2010 the City set up the Emergency Medical Services Fund, a major enterprise fund and transferred \$410,000 of buildings, \$469,463 of equipment, and \$640,865 of accumulated depreciation from the governmental activities.
- As of September 30, 2010, the annexation water and sewer project was still in progress and costs totaled \$2,827,528.

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### **City of El Campo, Texas**

#### **Capital Assets (Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 491,945	\$ 491,945	\$ 16,021	\$ 16,021	\$ 507,966	\$ 507,966
Machinery and equipment	1,653,813	2,016,295	462,564	311,799	2,116,377	2,328,094
Bldgs. and improvements	5,175,458	4,119,022	757,623	769,075	5,933,081	4,888,097
Water works system	-	-	6,745,779	7,044,435	6,745,779	7,044,435
Sewer system	-	-	4,058,941	4,230,074	4,058,941	4,230,074
Infrastructure	7,917,742	8,292,134	-	-	7,917,742	8,292,134
Construction in progress	-	1,079,615	2,827,528	1,476,250	2,827,528	2,555,865
<b>Total</b>	<b><u>\$ 15,238,958</u></b>	<b><u>\$ 15,999,011</u></b>	<b><u>\$ 14,868,456</u></b>	<b><u>\$ 13,847,654</u></b>	<b><u>\$ 30,107,414</u></b>	<b><u>\$ 29,846,665</u></b>

Additional information on the City's capital assets can be found in Note 5 of this report.

### **Long-Term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$10,650,000. Of this amount, \$545,000 represents General Obligation Refunding Bonds, Series 1998. The remainder of the City's bonded debt represents \$10,105,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, 2004, 2007, 2008 and 2010. The City's bonded debt had a net increase of \$1,160,000 or 12.22% during the fiscal year ended September 30, 2010.

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## **CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)**

### **Long-Term Debt - (Continued)**

The City maintains a bond rating of "AAA" from Moody's and a "AAA" rating from Standard & Poor's.

As a Home Rule City, the City is not limited by law in the amount of debt it may issue; however, all new local bond issues must be approved by the State Attorney General.

During fiscal year 2010, the City made payments on the outstanding capital leases in the amount of \$234,477. The balance on all capital leases at September 30, 2010 was \$1,452,446.

In March 2010, the City issued \$1,710,000 in Tax and Revenue Certificates of Obligation to pay contractual obligations to be incurred for improvements and renovations to the City's utility system.

Additional information on the City's long-term debt can be found in Note 11 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The total sales tax payments received by the City from the State Comptroller and retained by the City on its own utility billing for the current fiscal year totaled \$2,598,844 (including funds dispersed to City Development Corporation of El Campo, Inc.). This amount is a decrease of \$157,143 (5.72%) from the previous year as a result of the slowing economy. While sales tax receipts continued to decline for the first half of 2010, the second half showed some resilience. The City reduced the budget estimate for sales tax for 2011 by nearly \$400,000 from the previous year. The City will continue to monitor this revenue source.
- To accommodate the lower rates in fiscal year 2011, interest earnings are expected to decrease 37%.
- In a cost saving effort, capital purchases have been deferred.

All of these factors were considered in preparing the City's budget for the 2010-2011 fiscal year.

The certified assessed taxable property valuations for the 2010 tax roll total \$464,073,341 and \$349,350 for the senior tax freeze, with a tax rate of \$0.52797 per \$100 valuation. The decrease in the tax rate from the prior year was a result of the increase in the taxable values and the continually increasing operating costs. \$0.47533 was allocated for maintenance and operations, and \$0.05264 was allocated for interest and sinking (debt service). The projected total property tax due is \$2,743,528 for the 2010 tax year.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, 315 E. Jackson, El Campo, Texas 77437.

## **Basic Financial Statements**

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,614,941	\$ 1,730,485	\$ 3,345,426	\$ 375,518
Investments	2,480,354	334,510	2,814,864	404,404
Receivables (net)	615,638	813,981	1,429,619	2,782
Internal balances	(46,887)	46,887	-	-
Due from other governments	457,328	-	457,328	-
Due from primary government	-	-	-	76,191
Notes receivable	14,290	-	14,290	2,673
Deferred expenditures/expenses	10,177	-	10,177	-
Inventory	27,831	-	27,831	-
Restricted assets				
Cash and cash equivalents	-	2,341,688	2,341,688	-
Total current assets	<u>5,173,672</u>	<u>5,267,551</u>	<u>10,441,223</u>	<u>861,568</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	491,945	2,843,550	3,335,495	173,378
Buildings, infrastructure, and equipment (net)	14,747,013	12,024,908	26,771,921	2,715,102
Bond issue costs (net)	64,776	163,081	227,857	-
Notes receivable (net)	67,103	-	67,103	6,040
Total noncurrent assets	<u>15,370,837</u>	<u>15,031,539</u>	<u>30,402,376</u>	<u>2,894,520</u>
<b>Total assets</b>	<u>20,544,509</u>	<u>20,299,090</u>	<u>40,843,599</u>	<u>3,756,088</u>

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 116,825	\$ 344,487	\$ 461,312	\$ 6,467
Accrued expenses/expenditures	51,180	16,805	67,985	-
Deposits	14,201	184,278	198,479	-
Accrued interest payable	21,819	67,648	89,467	-
Due to component unit	76,191	-	76,191	-
Due to other governments	45,172	-	45,172	-
Claims payable	61,808	-	61,808	-
Accrued compensated absences	159,439	52,591	212,030	-
Current portion of long-term obligations	278,815	517,093	795,908	120,462
Total current liabilities	<u>825,450</u>	<u>1,182,902</u>	<u>2,008,352</u>	<u>126,929</u>
Noncurrent liabilities				
Accrued compensated absences	115,901	42,121	158,022	-
Noncurrent portion of long-term obligations	2,798,525	8,508,013	11,306,538	434,414
Total noncurrent liabilities	<u>2,914,426</u>	<u>8,550,134</u>	<u>11,464,560</u>	<u>434,414</u>
<b>Total liabilities</b>	<u>3,739,876</u>	<u>9,733,036</u>	<u>13,472,912</u>	<u>561,343</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	12,651,611	8,185,040	20,836,651	2,333,605
Restricted for:				
Debt service	576,901	-	576,901	-
Special projects - municipal court	19,647	-	19,647	-
Other purposes	-	-	-	10,465
Unrestricted net assets	<u>3,556,474</u>	<u>2,381,014</u>	<u>5,937,488</u>	<u>850,675</u>
<b>Total net assets</b>	<u>\$ 16,804,633</u>	<u>\$ 10,566,054</u>	<u>\$ 27,370,687</u>	<u>\$ 3,194,745</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the year ended September 30, 2010*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 1,700,404	\$ 134,468	\$ -	\$ -
Public safety	3,331,347	670,620	145,248	-
Public works	1,933,738	29,651	3,294	-
Parks and recreation	745,235	187,309	-	-
Interest on long-term debt	144,355	-	-	-
Total governmental activities	<u>7,855,079</u>	<u>1,022,048</u>	<u>148,542</u>	<u>-</u>
Business-type activities				
Utilities	4,219,111	4,337,210	-	-
Emergency medical services	1,050,632	294,344	655,472	-
Total business-type activities	<u>5,269,743</u>	<u>4,631,554</u>	<u>655,472</u>	<u>-</u>
Total primary government	<u>\$ 13,124,822</u>	<u>\$ 5,653,602</u>	<u>\$ 804,014</u>	<u>\$ -</u>
<b>Component Units</b>	<u>\$ 834,820</u>	<u>\$ 258,980</u>	<u>\$ 200,571</u>	<u>\$ 2,100</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,565,936)	\$ -	\$ (1,565,936)	\$ -
(2,515,479)	-	(2,515,479)	-
(1,900,793)	-	(1,900,793)	-
(557,926)	-	(557,926)	-
(144,355)	-	(144,355)	-
<u>(6,684,489)</u>	<u>-</u>	<u>(6,684,489)</u>	<u>-</u>
-	118,099	118,099	-
<u>-</u>	<u>(100,816)</u>	<u>(100,816)</u>	<u>-</u>
<u>-</u>	<u>17,283</u>	<u>17,283</u>	<u>-</u>
<u>(6,684,489)</u>	<u>17,283</u>	<u>(6,667,206)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(373,169)</u>
2,373,196	-	2,373,196	-
268,690	-	268,690	-
2,161,373	-	2,161,373	432,087
603,132	-	603,132	-
102,424	-	102,424	-
57,935	23,680	81,615	17,275
295,309	-	295,309	3,345
(196,916)	196,916	-	-
<u>5,665,143</u>	<u>220,596</u>	<u>5,885,739</u>	<u>452,707</u>
(1,019,346)	237,879	(781,467)	79,538
<u>17,823,979</u>	<u>10,328,175</u>	<u>28,152,154</u>	<u>3,115,207</u>
<u>\$ 16,804,633</u>	<u>\$ 10,566,054</u>	<u>\$ 27,370,687</u>	<u>\$ 3,194,745</u>

**CITY OF EL CAMPO, TEXAS****BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 595,863	\$ 967,448	\$ 1,563,311
Investments	2,480,354	-	2,480,354
Receivables (net)	516,081	99,557	615,638
Due from other funds	66,764	-	66,764
Due from other governments	457,328	-	457,328
Note receivable from component unit	-	14,290	14,290
Deferred expenditures	10,177	-	10,177
Inventory	27,831	-	27,831
Noncurrent assets			
Note receivable from component unit (net)	-	67,103	67,103
<b>Total assets</b>	<u>\$ 4,154,398</u>	<u>\$ 1,148,398</u>	<u>\$ 5,302,796</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 76,789	\$ 21,872	\$ 98,661
Accrued expenditures	51,180	-	51,180
Deposits	14,201	-	14,201
Due to component unit	76,191	-	76,191
Due to other governments	45,172	-	45,172
Due to other funds	95,558	18,093	113,651
Deferred revenue	448,234	77,333	525,567
<b>Total liabilities</b>	<u>807,325</u>	<u>117,298</u>	<u>924,623</u>
<b>Fund balances</b>			
Reserved for:			
Deferred expenditures	10,177	-	10,177
Inventory	27,831	-	27,831
Noncurrent notes receivable	-	67,103	67,103
Unreserved, undesignated reported in:			
General fund	3,309,065	-	3,309,065
Special revenue funds	-	81,471	81,471
Debt service fund	-	254,258	254,258
Capital project funds	-	628,268	628,268
<b>Total fund balances</b>	<u>3,347,073</u>	<u>1,031,100</u>	<u>4,378,173</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,154,398</u>	<u>\$ 1,148,398</u>	<u>\$ 5,302,796</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS**

**OF GOVERNMENTAL ACTIVITIES**

September 30, 2010

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<b>Total governmental fund balances</b>		<b>\$ 4,378,173</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
The internal service fund is used by the City to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(28,342)
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		344,462
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		181,105
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$34,631,557 and the accumulated depreciation is \$19,392,599.		15,238,958
Other noncurrent assets (for example, bond issue costs) used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$79,815 and the accumulated amortization is \$15,039.		64,776
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	\$ (2,923,934)	
Capital leases payable	(153,406)	
Accrued interest payable	(21,819)	
Compensated absences	<u>(275,340)</u>	<u>(3,374,499)</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 16,804,633</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS**

For the year ended September 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 5,166,428	\$ 363,970	\$ 5,530,398
Licenses and permits	98,729	-	98,729
Intergovernmental	133,119	84,985	218,104
Charges for services	206,810	10,598	217,408
Fines and forfeitures	557,979	97,295	655,274
Investment income	52,374	5,398	57,772
Industrial agreement	14,954	-	14,954
Miscellaneous	124,243	75,699	199,942
<b>Total revenues</b>	<u>6,354,636</u>	<u>637,945</u>	<u>6,992,581</u>
<b>EXPENDITURES</b>			
Current			
General government	1,562,844	48,687	1,611,531
Public safety	3,202,630	58,122	3,260,752
Public works	1,523,075	17,402	1,540,477
Parks and recreation	692,676	-	692,676
Capital outlay	-	401,725	401,725
Debt service			
Principal retirement	-	163,536	163,536
Interest and fiscal charges	-	141,654	141,654
<b>Total expenditures</b>	<u>6,981,225</u>	<u>831,126</u>	<u>7,812,351</u>
Excess (deficiency) of revenues over expenditures	(626,589)	(193,181)	(819,770)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	12,729	-	12,729
Transfers in	541,579	418,146	959,725
Transfers out	(418,146)	(49,567)	(467,713)
<b>Total other financing sources (uses)</b>	<u>136,162</u>	<u>368,579</u>	<u>504,741</u>
Net change in fund balances	(490,427)	175,398	(315,029)
Fund balances at beginning of year	<u>3,837,500</u>	<u>855,702</u>	<u>4,693,202</u>
<b>Fund balances at end of year</b>	<u>\$ 3,347,073</u>	<u>\$ 1,031,100</u>	<u>\$ 4,378,173</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS***RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the year ended September 30, 2010*

---

<b>Total net change in fund balances - governmental funds</b>		\$ (315,029)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
The internal service fund is used by the City to charge the costs of insurance to individual funds. The net loss of the internal service fund is reported with governmental activities.		65,638
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(245,857)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2009/2010 capital outlay is to increase net assets.		497,378
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,011,574)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond principal retirement	163,536	
Capital lease principal retirement	<u>129,064</u>	292,600
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.		
Property taxes	38,736	
Other revenues	<u>(402,318)</u>	(363,582)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	63,781	
Decrease in accrued interest	1,290	
Decrease in bond issue costs	<u>(3,991)</u>	<u>61,080</u>
<b>Change in net assets of governmental activities</b>		<u>\$ (1,019,346)</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2010

	Business-type Activities		
	Utility	Emergency Medical Services	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,724,174	\$ 6,311	\$ 1,730,485
Investments	334,510	-	334,510
Receivables (net)	469,326	344,655	813,981
Due from other funds	95,558	-	95,558
Restricted assets			
Cash and cash equivalents	2,341,688	-	2,341,688
Total current assets	<u>4,965,256</u>	<u>350,966</u>	<u>5,316,222</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	2,843,550	-	2,843,550
Buildings, improvements, and equipment (net)	11,808,442	216,466	12,024,908
Bond issue costs (net)	163,081	-	163,081
Total noncurrent assets	<u>14,815,073</u>	<u>216,466</u>	<u>15,031,539</u>
<b>Total assets</b>	<u>19,780,329</u>	<u>567,432</u>	<u>20,347,761</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	338,621	5,866	344,487
Accrued expenses	7,744	9,061	16,805
Deposits	184,278	-	184,278
Accrued interest payable	67,648	-	67,648
Due to other funds	48,671	-	48,671
Claims payable	-	-	-
Compensated absences	23,098	29,493	52,591
Current portion of capital leases	109,965	-	109,965
Current portion of general obligation bonds	243,058	-	243,058
Current portion of certificates of obligation	164,070	-	164,070
Total current liabilities	<u>1,187,153</u>	<u>44,420</u>	<u>1,231,573</u>
Noncurrent liabilities			
Compensated absences	17,158	24,963	42,121
Capital leases, net of current portion	1,189,075	-	1,189,075
General obligation bonds, net of current portion	256,816	-	256,816
Certificates of obligation, net of current portion	7,062,122	-	7,062,122
Total noncurrent liabilities	<u>8,525,171</u>	<u>24,963</u>	<u>8,550,134</u>
<b>Total liabilities</b>	<u>9,712,324</u>	<u>69,383</u>	<u>9,781,707</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,968,574	216,466	8,185,040
Unrestricted net assets	2,099,431	281,583	2,381,014
<b>Total net assets</b>	<u>\$ 10,068,005</u>	<u>\$ 498,049</u>	<u>\$ 10,566,054</u>

The accompanying notes are an integral part of this statement.

---

Governmental  
Activities

Internal Service  
Fund

\$ 51,630

-

-

-

-

51,630

-

-

-

-

51,630

18,164

-

-

-

-

61,808

-

-

-

-

79,972

-

-

-

-

-

79,972

-

(28,342)

\$ (28,342)

**CITY OF EL CAMPO, TEXAS***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**PROPRIETARY FUNDS**For the year ended September 30, 2010*

	Business-type Activities			Governmental
	Utility	Emergency Medical Services	Total	Internal Service Fund
<b>OPERATING REVENUES</b>				
Charges for services	\$ 4,316,677	\$ 293,844	\$ 4,610,521	\$ 1,064,591
Miscellaneous	20,533	500	21,033	-
<b>Total operating revenues</b>	<u>4,337,210</u>	<u>294,344</u>	<u>4,631,554</u>	<u>1,064,591</u>
<b>OPERATING EXPENSES</b>				
Personnel	799,655	841,243	1,640,898	-
Materials and supplies	71,797	47,933	119,730	-
Repairs and maintenance	180,041	24,660	204,701	-
Other services and charges	2,144,799	81,585	2,226,384	5,180
Claims expense	-	-	-	993,936
Depreciation and amortization	628,024	55,211	683,235	-
<b>Total operating expenses</b>	<u>3,824,316</u>	<u>1,050,632</u>	<u>4,874,948</u>	<u>999,116</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	512,894	(756,288)	(243,394)	65,475
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	23,329	351	23,680	163
Noncapital grants and contributions	-	1,003,091	1,003,091	-
Interest and fiscal charges	(394,795)	-	(394,795)	-
Net nonoperating revenues (expenses)	<u>(371,466)</u>	<u>1,003,442</u>	<u>631,976</u>	<u>163</u>
Income before contributions and transfers	141,428	247,154	388,582	65,638
Contributions and transfers				
Capital contributions	69,632	271,677	341,309	-
Transfers in	-	-	-	-
Transfers out	(471,230)	(20,782)	(492,012)	-
Total contributions and transfers	<u>(401,598)</u>	<u>250,895</u>	<u>(150,703)</u>	<u>-</u>
Change in net assets	(260,170)	498,049	237,879	65,638
Total net assets at beginning of year	<u>10,328,175</u>	<u>-</u>	<u>10,328,175</u>	<u>(93,980)</u>
<b>Total net assets at end of year</b>	<u>\$ 10,068,005</u>	<u>\$ 498,049</u>	<u>\$ 10,566,054</u>	<u>\$ (28,342)</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2010

	Business-type Activities		
	Utility	Emergency Medical Services	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 4,351,297	\$ 347,706	\$ 4,699,003
Cash received from other funds	-	-	-
Cash paid to suppliers for goods and services	(2,387,031)	(153,056)	(2,540,087)
Cash paid to employees for services	(796,154)	(836,888)	(1,633,042)
<b>Net cash provided (used) by operating activities</b>	<u>1,168,112</u>	<u>(642,238)</u>	<u>525,874</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital contributions	-	655,472	655,472
Borrowing (repayments) to other funds	(99,635)	-	(99,635)
Transfers (out) to other funds	(471,230)	(7,274)	(478,504)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(570,865)</u>	<u>648,198</u>	<u>77,333</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,388,240)	-	(1,388,240)
Proceeds from issuance of debt	1,710,000	-	1,710,000
Payments on issuance of debt	(54,635)	-	(54,635)
Principal paid on debt	(491,877)	-	(491,877)
Interest paid	(387,147)	-	(387,147)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(611,899)</u>	<u>-</u>	<u>(611,899)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(650,000)	-	(650,000)
Proceeds from maturity of investments	1,107,144	-	1,107,144
Investment income	26,002	351	26,353
<b>Net cash provided (used) by investing activities</b>	<u>483,146</u>	<u>351</u>	<u>483,497</u>
Net increase (decrease) in cash and cash equivalents	468,494	6,311	474,805
Cash and cash equivalents at beginning of year	<u>3,597,368</u>	<u>-</u>	<u>3,597,368</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 4,065,862</u>	<u>\$ 6,311</u>	<u>\$ 4,072,173</u>



**CITY OF EL CAMPO, TEXAS****STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS**

For the year ended September 30, 2010

	Business-type Activities		
	Utility	Emergency Medical Services	Total
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 512,894	\$ (756,288)	\$ (243,394)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	628,024	55,211	683,235
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(8,563)	53,362	44,799
Increase (decrease) in accounts payable	9,606	1,122	10,728
Increase (decrease) in accrued expenses	(96)	297	201
Increase (decrease) in deposits	22,650	-	22,650
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in compensated absences	3,597	4,058	7,655
Total adjustments	<u>655,218</u>	<u>114,050</u>	<u>769,268</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 1,168,112</u>	<u>\$ (642,238)</u>	<u>\$ 525,874</u>
<b>Reconciliation of cash and cash equivalents</b>			
Unrestricted			
Cash and cash equivalents	\$ 1,724,174	\$ 6,311	\$ 1,730,485
Restricted			
Cash and cash equivalents	<u>2,341,688</u>	<u>-</u>	<u>2,341,688</u>
<b>Total</b>	<u>\$ 4,065,862</u>	<u>\$ 6,311</u>	<u>\$ 4,072,173</u>

**Noncash noncapital financing activities**

The Emergency Medical Services Fund received noncash contributions relating to various receivable and payable balances of \$334,111 in fiscal year 2010.

**Noncash capital and related financing activities**

The Emergency Medical Services Fund received noncash contributions relating to capital asset additions of \$271,677 in fiscal year 2010.

**Noncash investing activities**

The Utility Fund had a decrease in fair value of investments of \$3,996 in fiscal year 2010.

The accompanying notes are an integral part of this statement.

---

Governmental  
Activities  
Internal Service  
Fund

\$ 65,475

-

-

1,330

-

-

(17,975)

-

(16,645)

\$ 48,830

\$ 51,630

-

\$ 51,630

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
September 30, 2010

	City Development Corporation of El Campo, Inc.	El Campo Volunteer Fire Department	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 133,670	\$ 241,848	\$ 375,518
Investments	404,404	-	404,404
Receivables (net)	2,655	127	2,782
Due from primary government	76,191	-	76,191
Note receivable	2,673	-	2,673
<b>Total current assets</b>	<u>619,593</u>	<u>241,975</u>	<u>861,568</u>
Noncurrent assets			
Capital assets			
Land and improvements	164,378	9,000	173,378
Other capital assets (net)	1,450,990	1,264,112	2,715,102
<b>Net capital assets</b>	<u>1,615,368</u>	<u>1,273,112</u>	<u>2,888,480</u>
Note receivable (net of current portion)	6,040	-	6,040
<b>Total noncurrent assets</b>	<u>1,621,408</u>	<u>1,273,112</u>	<u>2,894,520</u>
<b>Total assets</b>	<u>2,241,001</u>	<u>1,515,087</u>	<u>3,756,088</u>
<b>LIABILITIES</b>			
Accounts payable	55	6,412	6,467
Long-term liabilities			
Due within one year	14,290	106,172	120,462
Due in more than one year	67,103	367,311	434,414
<b>Total liabilities</b>	<u>81,448</u>	<u>479,895</u>	<u>561,343</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,533,975	799,630	2,333,605
Restricted for:			
Other purposes	-	10,465	10,465
Unrestricted net assets	625,578	225,097	850,675
<b>Total net assets</b>	<u>\$ 2,159,553</u>	<u>\$ 1,035,192</u>	<u>\$ 3,194,745</u>

The accompanying notes are an integral part of this statement.

**CITY OF EL CAMPO, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
*For the year ended September 30, 2010*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Component Units</b>				
City Development Corporation of El Campo, Inc.	\$ 620,162	\$ 142,091	\$ -	\$ -
El Campo Volunteer Fire Department	<u>214,658</u>	<u>116,889</u>	<u>200,571</u>	<u>2,100</u>
Total component units	<u>\$ 834,820</u>	<u>\$ 258,980</u>	<u>\$ 200,571</u>	<u>\$ 2,100</u>

General revenues:  
 Taxes:  
     Sales taxes  
     Unrestricted investment earnings  
     Miscellaneous  
 Total general revenues  
 Change in net assets  
 Net assets - beginning  
 Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Component Units		
City Development Corporation of El Campo, Inc.	El Campo Volunteer Fire Department	Total
\$ (478,071)	\$ -	\$ (478,071)
<u>-</u>	<u>104,902</u>	<u>104,902</u>
<u>(478,071)</u>	<u>104,902</u>	<u>(373,169)</u>
432,087	-	432,087
12,615	4,660	17,275
<u>-</u>	<u>3,345</u>	<u>3,345</u>
<u>444,702</u>	<u>8,005</u>	<u>452,707</u>
(33,369)	112,907	79,538
<u>2,192,922</u>	<u>922,285</u>	<u>3,115,207</u>
<u>\$ 2,159,553</u>	<u>\$ 1,035,192</u>	<u>\$ 3,194,745</u>

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of El Campo, Texas (the "City") was incorporated in 1905 and has adopted a Home Rule Charter. The City now operates under a council-manager form of government. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council and is allowed to vote on all matters. The City provides the following services: public safety to include police, fire, and emergency medical services, highways and streets, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administration.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. The component units discussed in this note are included in the City's financial statements because of the significance of their financial relationships with the City.

The component unit column in the financial statements includes the financial data from two component units. These component units are reported in a separate column to emphasize that they are legally separate from the City.

The component unit column is made of the following:

The City Development Corporation of El Campo, Inc. (CDC) - was created for the purpose of benefiting and accomplishing public purposes of the City by promoting, encouraging, and enhancing the creation of jobs in the City. This is to be achieved through assistance in the retention of existing businesses and industries and the attraction of new businesses and industries and aid in their development and growth. CDC was incorporated under the Texas Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Ann.CIV.ST. Section 4A, as amended, and qualifies as a tax-exempt organization under Code Section 501(c)(4) of the Internal Revenue Code. All powers of CDC are vested in the Board of Directors appointed by the City Council. The City is also able to impose its will on CDC, including approving its operating budget. The amounts reported for CDC are as of September 30, 2010.

The El Campo Volunteer Fire Department (the "ECVFD") - was formed as a tax-exempt organization under Code Section 501(c)(3) of the Internal Revenue Code. The purpose of the ECVFD is the preservation and protection of property and lives from and during such fires as may occur in the City and vicinity and any other disaster or situation wherein the ECVFD may be of assistance in protecting or promoting the safety and welfare of the public. The ECVFD raise and hold economic resources for the direct benefit of the City. The amounts reported for the ECVFD in the financial statements are as of December 31, 2009, which is the most recent information available.

These component units are discretely presented in the financial statements. Complete financial statements of the individual component units can be obtained from El Campo City Hall, 315 E. Jackson, El Campo, Texas 77437.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. 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 information on all activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

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

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Utility Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant, water distribution system, and the City's garbage collection.

The Emergency Medical Services Fund, an enterprise fund, accounts for activities of the City related to providing emergency medical services to the residents and visitors of the City. The Fund utilizes ambulance revenues, interest and contributions from the Wharton County Emergency Services District #4 to fund this service.

Additionally, the City reports the following fund types:

The Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has three Capital Project Funds. The 2007 Bond Fund accounts for the use of the proceeds from the City's 2007 Certificates of Obligation issued to renovate public safety facilities, the Civic Center, and purchase a fire truck. The other Capital Project Funds include the following: The 2004 Bond Fund accounts for the use of the proceeds from the City's 2004 Certificates of Obligation; and the Street Paving Fund accounts for paving the City's remaining unpaved streets through assessments to adjacent landowners and transfers from General Fund.

The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City maintains one Internal Service Fund: Employee Health Insurance Fund.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

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

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

D. Budgets and Budgetary Accounting

Procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The annual budget must specify appropriations for capital expenditures and for expenditures directed by the City Council for services and for the operation of the City. It must comply with fund requirements of bond covenants. City department directors and officers shall submit budget requests for the next fiscal year to, and as directed by, the City Manager for review and consolidation. The City Manager shall submit a proposed annual budget to the City Council at least 45 days prior to the end of each fiscal year. Before taxes are levied, but after a public hearing or hearings, the City Council shall adopt an annual budget. The budget shall be adopted by a majority of all members of the City Council not later than 15 days prior to the beginning of the fiscal year.
2. At any time during the fiscal year, the City Manager is authorized to transfer unencumbered budgeted amounts between line-items within a department; however, any revisions that alter the total budgeted expenditures of any department must be approved by the City Council.
3. Formal budgetary integration is employed as a management control device by expenditure category during the year for the City's Governmental Funds.
4. Legally adopted annual budgets for the General and Debt Service Funds are prepared on a basis consistent with generally accepted accounting principles (GAAP) at the departmental level (i.e., administration, municipal court, etc.), the legal level of budgetary control. An annual budget is also adopted for the Enterprise Fund on a non-GAAP budgetary basis. The legal level of budgetary control for the Utility Fund is at the fund level.
5. Unencumbered budget appropriations lapse at year-end and do not carry forward to future periods.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. There are no outstanding encumbrances at September 30, 2010.

F. Deposits and Investments

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

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments are recorded at fair value as of September 30, 2010. Fair value is defined by GASB as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Quoted market prices were used to determine fair value at the end of the current fiscal period. See Note 3 for further discussion.

G. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

H. Inventories and Prepaid Items

Inventories of materials and supplies held by the General Fund are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available. Inventories are not maintained in the Utility Fund since materials and supplies are charged to related expenditure accounts when purchased. As these amounts are not material to the financial statements, the exclusion of inventories does not materially affect the financial position or result of operations of the Utility Fund.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

H. Inventories and Prepaid Items - (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide statements.

I. Restricted Assets

Certain proceeds of the City's Utility Fund debt are classified as restricted assets on the balance sheet because they are restricted for use in construction.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	5-40
Water works	5-40
Sewer system	5-40
Infrastructure	20-50
Machinery and equipment	5-15

K. Compensated Absences

All full-time employees accumulate personal benefits in varying annual amounts up to a maximum allowable accumulation based on years of service. In the event of termination, an employee is reimbursed for all accumulated personal days up to the maximum accrued time. Sick leave benefits are earned by all full-time employees at a rate of 12 days per year and may be accumulated to a maximum of 960 hours. City personnel policies state that unused sick leave benefits will be paid to employees upon termination at a rate of \$5 per hour up to a maximum of 960 hours. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

L. Long-Term Obligations

In the government-wide financial statements, and in 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

M. 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, if any, represent tentative management plans that are subject to change.

N. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. Budgetary Compliance

There were several situations of expenditures exceeding the amount appropriated during the fiscal year 2009-2010.

<u>Fund Name - Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
City administration	\$ 1,186,527	\$ 1,201,505	\$ (14,978)
Police	2,387,731	2,402,382	(14,651)
Communications	305,710	336,722	(31,012)
Streets	1,125,860	1,219,741	(93,881)
Vehicle and facility maintenance	107,710	110,601	(2,891)
Civic Center	102,490	103,140	(650)
Transfers out	414,820	418,146	(3,326)

These over expenditures were funded by available fund balance in the General Fund.

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - (Continued)****B. Deficit Fund Equity**

As of September 30, 2010, the following funds had deficit equity balances:

<u>Fund</u>	<u>Fund Balance/ Net Assets</u>
Nonmajor Governmental Funds	
Special Revenue Funds	
Municipal Court Technology	\$ 3,341
Internal Service Fund	28,342

Steps will be taken to eliminate these deficits in the upcoming fiscal year.

**NOTE 3: DEPOSITS AND INVESTMENTS**

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
MBIA Investment Pool	\$ 5,267,864	42.00
U.S. Government Securities	2,153,403	56.04
Asset-Backed Securities	661,471	31.93
Total	<u>\$ 8,082,738</u>	

The investment pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in the pool.

As previously discussed in Note 1, the investments are reported in the accompanying statements at fair value.

**Interest Rate Risk**

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. The MBIA Investment Pool's weighted average maturity cannot exceed 60 days.

**Credit Risk**

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with the MBIA Investment Pool. The pool operates in full compliance with the Public Funds Investment Act. The MBIA Investment Pool (which represents approximately 65% of the portfolio) is rated AAA/V-1+ by Standard & Poor's. The remaining 35% of the City's portfolio has a AAA rating issued by Standard & Poor's.

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**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2010, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Notes 16 and 17 for discussions relative to the investments of the City's component units.

**NOTE 4: RECEIVABLES**

Receivables at September 30, 2010, consist of the following:

	<u>General</u>	<u>Utility</u>	<u>Emergency Medical Services</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Gross receivables:					
Accounts	\$ -	\$ 467,672	\$ 344,655	\$ 405,065	\$ 872,737
Ad valorem taxes	360,488	-	-	45,964	406,452
Franchise taxes	60,139	-	-	-	60,139
Fines	1,428,211	-	-	-	1,428,211
Interest	<u>7,708</u>	<u>1,654</u>	<u>-</u>	<u>-</u>	<u>9,362</u>
Total gross receivables	1,856,546	469,326	344,655	451,029	2,776,901
Less: Allowances	<u>1,340,465</u>	<u>-</u>	<u>-</u>	<u>351,472</u>	<u>1,691,937</u>
Total net receivables	<u>\$ 516,081</u>	<u>\$ 469,326</u>	<u>\$ 344,655</u>	<u>\$ 99,557</u>	<u>\$ 1,084,964</u>

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**NOTE 4: RECEIVABLES - (Continued)**

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 305,413	\$ -	\$ 305,413
Fines	142,821	-	142,821
Nonmajor Funds			
Ad valorem taxes	39,049	-	39,049
Other	38,284	-	38,284
	<u>\$ 525,567</u>	<u>\$ -</u>	<u>\$ 525,567</u>

The City's property taxes are levied annually on October 1<sup>st</sup> on the basis of the Appraisal District's assessed values as of January 1<sup>st</sup> of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Wharton County Tax Assessor-Collector and are due and payable on January 31<sup>st</sup>. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on February 1<sup>st</sup> of the subsequent calendar year.

The City provides an exemption from property taxes of \$10,000 of the assessed value of residential homesteads for persons 65 years of age or older. An exemption from \$1,500 to \$3,000 is allowed to disabled veterans on any one piece of property. Additionally, the market value of agricultural land is reduced to agricultural value for purposes of the City's tax levy calculation.

The City, under Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population and by City Home Rule Charter, is limited to levy ad valorem tax at a rate up to \$2.50 per \$100 assessed valuation for general government services. Within the \$2.50 maximum levy, there is no legal limit on the amount of property taxes that can be levied for debt service.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.54435 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.48909 and \$0.05526, respectively. The resulting adjusted total tax levy was \$2,602,086 on the total adjusted taxable valuation of \$419,621,412 for the 2009 tax year.

**NOTE 5: CAPITAL ASSETS**

The City's capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 491,945	\$ -	\$ -	\$ 491,945
Construction in progress	1,079,615	-	1,079,615	-
Total capital assets not being depreciated	<u>1,571,560</u>	<u>-</u>	<u>1,079,615</u>	<u>491,945</u>
Capital assets, being depreciated				
Machinery and equipment	4,606,930	140,957	595,622	4,152,265
Buildings	7,455,478	1,296,477	410,000	8,341,955
Infrastructure	21,505,833	139,559	-	21,645,392
Total capital assets being depreciated	<u>33,568,241</u>	<u>1,576,993</u>	<u>1,005,622</u>	<u>34,139,612</u>
Less accumulated depreciation for				
Machinery and equipment	2,590,635	298,582	390,765	2,498,452
Buildings	3,336,456	199,041	369,000	3,166,497
Infrastructure	13,213,699	513,951	-	13,727,650
Total accumulated depreciation	<u>19,140,790</u>	<u>1,011,574</u>	<u>759,765</u>	<u>19,392,599</u>
Total capital assets being depreciated, net	<u>14,427,451</u>	<u>565,419</u>	<u>245,857</u>	<u>14,747,013</u>
Governmental activities capital assets, net	<u>\$ 15,999,011</u>	<u>\$ 565,419</u>	<u>\$ 1,325,472</u>	<u>\$ 15,238,958</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 16,021	\$ -	\$ -	\$ 16,021
Construction in progress	1,476,250	1,351,278	-	2,827,528
Total capital assets not being depreciated	<u>1,492,271</u>	<u>1,351,278</u>	<u>-</u>	<u>2,843,549</u>
Capital assets, being depreciated				
Machinery and equipment	1,777,598	527,050	-	2,304,648
Buildings and improvements	1,705,709	410,000	-	2,115,709
Water works system	10,831,308	40,188	-	10,871,496
Sewer system	7,770,057	6,987	-	7,777,044
Total capital assets being depreciated	<u>22,084,672</u>	<u>984,225</u>	<u>-</u>	<u>23,068,897</u>
Less accumulated depreciation for				
Machinery and equipment	1,465,799	376,285	-	1,842,084
Buildings and improvements	936,634	421,452	-	1,358,086
Water works system	3,786,873	338,844	-	4,125,717
Sewer system	3,539,983	178,120	-	3,718,103
Total accumulated depreciation	<u>9,729,289</u>	<u>1,314,701</u>	<u>-</u>	<u>11,043,990</u>
Total capital assets being depreciated, net	<u>12,355,383</u>	<u>(330,476)</u>	<u>-</u>	<u>12,024,907</u>
Business-type activities capital assets, net	<u>\$ 13,847,654</u>	<u>\$ 1,020,802</u>	<u>\$ -</u>	<u>\$ 14,868,456</u>

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**NOTE 5: CAPITAL ASSETS - (Continued)**

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

**Governmental activities**

General government	\$ 125,153
Public safety	226,586
Public works	604,070
Parks and recreation	<u>55,765</u>

Total depreciation expense - governmental activities \$ 1,011,574

**Business-type activities**

Utilities	\$ 618,625
Emergency medical services	<u>55,211</u>

Total depreciation expense - business-type activities \$ 673,836

**NOTE 6: EMPLOYEES' RETIREMENT PLAN**Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**

Contributions - (Continued)

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

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 538,716	100%	\$ -
2009	503,237	100%	-
2008	423,127	100%	-

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

	Actuarial Valuation Information		
	12/31/09	12/31/08	12/31/07
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
Amortization period in years	28 - closed	29 - closed	30 - closed
Asset valuation method	10-year smoothed market	amortized cost	amortized cost
Investment return	7.50%	7.50%	7.00%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of living adjustments	2.1%	2.1%	2.1%

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/09	\$ 10,391,825	\$ 14,719,666	\$ 4,327,841	70.60%	\$ 4,386,471	98.66%
12/31/08	10,246,891	14,458,248	4,211,357	70.87%	4,170,422	100.98%
12/31/07	10,202,248	13,954,179	3,751,931	73.11%	3,816,186	98.32%
12/31/06	10,173,047	12,762,866	2,589,819	79.71%	3,348,699	77.34%
12/31/05	10,051,419	12,544,550	2,493,131	80.10%	3,399,727	73.33%
12/31/04	9,178,723	11,588,951	2,410,228	79.20%	3,195,778	75.42%
12/31/03	8,509,931	10,808,750	2,298,819	78.73%	3,053,451	75.29%
12/31/02	8,283,076	10,342,035	2,058,959	80.09%	2,968,532	69.36%
12/31/01	7,820,853	9,769,974	1,949,121	80.05%	2,958,509	65.88%
12/31/00	7,004,042	8,850,468	1,846,426	79.14%	2,787,497	66.24%

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**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

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

The City's contributions to the TMRS SDBF for the years ended 2010, 2009, and 2008 were \$3,071, \$3,753, and \$3,816, respectively, which equaled the required contributions each year.

**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010, there were 198 members of fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,152
Terminated participants entitled to benefits but not yet receiving them	2,105
Active participants (vested and nonvested)	<u>4,359</u>
	<u>8,616</u>

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

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**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Plan Description - (Continued)

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

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

Funding Policy

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

Annual Required Contributions

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

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010, (\$502,941 to help pay for the TESRS's administrative expenses) and with the assumed continuation of legislative appropriations of 1) the maximum state contribution amount in future years for up to 30 years as is necessary for the TESRS to have a 30-year amortization period, and 2) approximately \$500,000 each year to help pay for the TESRS's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Without the expected future annual contributions from the state, TESRS would have an inadequate contribution arrangement.

**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the 8/31/08 and 8/31/10 valuation dates:

	Actuarial Valuation Information	
	8/31/08	8/31/10
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period in years	6 years	30 years
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value	market value smoothed by a 5-year deferred recognition method with a 80% - 120% corridor on market value
Investment return	8.00%, net of expenses	7.75%, net of expenses
Projected salary increases	n/a	n/a
Inflation	3.50%	3.50%
Cost of living adjustment	none	none

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL per Member Covered
	(a)	(b)	(b)-(a)	(a/b)	(c)	(b-a)/(c)
8/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/2008 <sup>2</sup>	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 <sup>3</sup>	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

Notes:

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods, as well as benefit and contribution provisions, were first reflected in this valuation.

<sup>3</sup> Changes in actuarial assumptions were reflected in this valuation.

Three-Year Trend Information - State-wide

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

Notes:

<sup>1</sup> Includes a state contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2010 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

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**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Required Supplementary Information - (Continued)

Three-Year Trend Information - City of El Campo, Texas			
<u>Year Ended</u> <u>September 30</u>	<u>Annual Required</u> <u>Contributions (ARC)</u>	<u>Percentage of</u> <u>Contributed</u>	<u>Net</u> <u>Obligation</u>
2010	\$ 32,892	100%	\$ -
2009	47,500	100%	-
2008	26,443	100%	-

**NOTE 9: EMPLOYEE HEALTH INSURANCE FUND**

The City sponsors a self-insurance plan to provide health care benefits to employees and their dependents. Transactions related to the plan are accounted for in the Employee Health Insurance Fund, an internal service fund of the City. The fund assumes all risk up to \$95,000 of claims per participant annually; after this a reinsurance policy pays any remaining claims for the remainder of the year up to \$945,000 of claims per participant. Premiums are charged to the individual funds based on a predetermined cost per employee and dependent. These amounts are recorded as operating revenue in the internal service fund and as operating expenditures/expenses in the respective funds. Any claims that have been incurred, but not reported, as of the balance sheet date are shown as current liabilities in the internal service fund and have been charged as an operating expense for that period. This amount was determined by the City's health plan administrator. As of September 30, 2010, the fund had estimated liabilities for outstanding claims of \$61,808. There was a deficit unrestricted net assets of \$28,342 as of September 30, 2010.

Changes in the balance of claims payable during fiscal year 2010 are as follows:

	<u>9/30/10</u>	<u>9/30/09</u>
Unpaid claims, beginning of fiscal year	\$ 79,783	\$ -
Incurred claims (including IBNR)	993,936	691,008
Claim payments	<u>(1,011,911)</u>	<u>(611,225)</u>
Unpaid claims, end of fiscal year	<u>\$ 61,808</u>	<u>\$ 79,783</u>

The above schedule reflects only those claims for which the City was liable. Information on claims paid by the insurance carrier under the reinsurance policy was not available. Settled claims resulting from insured risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 10: RISK MANAGEMENT**

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has also purchased commercial insurance to cover employee health related expenses. The City has not retained any risks other than the deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**NOTE 11: LONG-TERM DEBT**

**A. Changes In Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 3,021,644	\$ -	\$ 142,836	\$ 2,878,808	\$ 150,930
General obligation bonds	65,826	-	20,700	45,126	21,942
Total bonds and certificates payable	<u>3,087,470</u>	<u>-</u>	<u>163,536</u>	<u>2,923,934</u>	<u>172,872</u>
Capital leases payable	<u>282,470</u>	<u>-</u>	<u>129,064</u>	<u>153,406</u>	<u>105,943</u>
Compensated absences	<u>339,121</u>	<u>108,384</u>	<u>172,165</u>	<u>275,340</u>	<u>159,439</u>
Total governmental activity long-term liabilities	<u>\$ 3,709,061</u>	<u>\$ 108,384</u>	<u>\$ 464,765</u>	<u>\$ 3,352,680</u>	<u>\$ 438,254</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 5,673,356	\$ 1,710,000	\$ 157,164	\$ 7,226,192	\$ 164,070
General obligation bonds	729,174	-	229,300	499,874	243,058
Total bonds and certificates payable	<u>6,402,530</u>	<u>1,710,000</u>	<u>386,464</u>	<u>7,726,066</u>	<u>407,128</u>
Capital leases payable	<u>1,404,453</u>	<u>-</u>	<u>105,413</u>	<u>1,299,040</u>	<u>109,965</u>
Compensated absences	<u>36,659</u>	<u>97,322</u>	<u>39,269</u>	<u>94,712</u>	<u>52,591</u>
Total business-type activity long-term liabilities	<u>\$ 7,843,642</u>	<u>\$ 1,807,322</u>	<u>\$ 531,146</u>	<u>\$ 9,119,818</u>	<u>\$ 569,684</u>

During the year ended September 30, 1998, the City defeased certain revenue bonds and certificates of obligation by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2010, \$580,000 of bonds outstanding was considered defeased.

Compensated absences are generally liquidated by the General Fund for the governmental activities and by the Utility Fund for the business-type activities. Please see Notes 16 and 17 for discussions relative to the long-term debt of the City's component units.

**B. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rates</u>	<u>Original Amount</u>
Refunding Series 1998	6/98 - 9/12	4.00 - 4.75%	\$ 3,540,000

**NOTE 11: LONG-TERM DEBT - (Continued)**

B. General Obligation Bonds - (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2011	\$ 21,942	\$ 1,617	\$ 243,058	\$ 17,911	\$ 284,528
2012	23,184	551	256,816	6,099	286,650
	<u>\$ 45,126</u>	<u>\$ 2,168</u>	<u>\$ 499,874</u>	<u>\$ 24,010</u>	<u>\$ 571,178</u>

C. Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.'s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system. The C.O.'s have been issued for both governmental and business-type activities. C.O.'s currently outstanding are as follows:

	Term	Interest Rates	Original Amount
Series 1995	6/95 - 2/15	5.50 - 7.50%	\$ 1,400,000
Series 2004	8/04 - 2/24	4.125 - 5.75%	3,120,000
Series 2007	8/08 - 2/27	3.55 - 5.50%	1,650,000
Series 2008	8/08 - 2/29	4.25 - 6.00%	3,430,000
Series 2010	3/10 - 2/30	3.25 - 4.50%	1,710,000
			<u>\$ 11,310,000</u>

Annual debt service requirements to maturity for C.O.'s are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2011	\$ 150,930	\$ 129,298	\$ 164,070	\$ 332,767	\$ 777,065
2012	162,474	122,048	172,526	323,561	780,609
2013	170,574	114,182	294,426	310,942	890,124
2014	175,453	105,823	309,547	294,670	885,493
2015	186,882	96,400	328,118	277,516	888,916
2016-2020	841,250	356,809	1,893,750	1,124,085	4,215,894
2021-2025	946,245	149,385	2,218,755	658,782	3,973,167
2026-2030	245,000	10,395	1,845,000	189,798	2,290,193
	<u>\$ 2,878,808</u>	<u>\$ 1,084,340</u>	<u>\$ 7,226,192</u>	<u>\$ 3,512,121</u>	<u>\$ 14,701,461</u>

**NOTE 11: LONG-TERM DEBT - (Continued)**

D. Capital Leases

Lease purchase agreement on Motorola radio equipment. The original amount of the lease, entered into in 2007, was \$91,000. The lease is payable in annual installments of \$21,813 and bears interest at a rate of 5.95%.	\$ 20,558
Lease purchase agreement on a street sweeper. The original amount of the lease, entered into in 2007, was \$108,064. The lease is payable in monthly installments of \$2,049 and bears interest at a rate of 5.19%.	39,156
Lease purchase agreement on a Gradall excavator. The original amount of the lease, entered into in 2007, was \$211,386. The lease is payable in monthly installments of \$4,008 and bears interest at a rate of 5.19%.	76,595
Lease purchase agreement on a tractor with mower boom. The original amount of the lease, entered into in 2008, was \$65,426. The lease is payable in monthly installments of \$1,932 and bears interest at a rate of 4.00%.	17,097
Lease purchase agreement on water meters. The original amount of the lease, entered into in 2004, was \$1,784,239. The lease is payable in quarterly installments of \$40,859 and bears interest at a rate of 4.25%.	<u>1,299,040</u>
	<u>\$ 1,452,446</u>

The present value of the capital leases after deduction of imputed interest is \$1,452,446.

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2011	\$ 105,943	\$ 5,942	\$ 109,965	\$ 53,472	\$ 275,322
2012	47,463	927	114,714	48,723	211,827
2013	-	-	119,667	43,770	163,437
2014	-	-	124,835	38,602	163,437
2015	-	-	130,225	33,212	163,437
2016-2020	-	-	699,634	76,692	776,326
	<u>\$ 153,406</u>	<u>\$ 6,869</u>	<u>\$ 1,299,040</u>	<u>\$ 294,471</u>	<u>\$ 1,753,786</u>

**NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2010, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Utility	\$ 48,671
	Nonmajor Governmental	
	Hotel/Motel Tax	12,700
	Police Seizure	5,393
Utility	General	95,558
		<u>\$ 162,322</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ 418,146	\$ 418,146
Nonmajor Governmental	49,567	-	49,567
Utility	471,230	-	471,230
Emergency Medical Services	20,782	-	20,782
	<u>\$ 541,579</u>	<u>\$ 418,146</u>	<u>\$ 959,725</u>

**NOTE 13: RELATED PARTY TRANSACTIONS**

At September 30, 2010, the primary government owed the City Development Corporation of El Campo, Inc., a discretely presented component unit, for a percentage of sales tax that was collected by the City. The receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
City Development Corporation of El Campo, Inc.	General	\$ 76,191

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**NOTE 13: RELATED PARTY TRANSACTIONS - (Continued)**Note Receivable from Component Unit

On June 7, 1995, as part of the City's Tax and Revenue Certificates of Obligation Series 1995 Bonds, the Debt Service Fund loaned \$200,000 to the City Development Corporation of El Campo, Inc., a component unit of the City. At September 30, 2010, the amount outstanding of \$94,254 is shown as a note receivable from the component unit on the Statement of Net Assets. Annual installments ranging from \$17,695 to \$19,088 are due through February 1, 2015, with interest rates varying from 7.5% to 5.5%. The total annual payments for the note receivable outstanding balance at September 30, 2010, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 14,290	\$ 4,087	\$ 18,377
2012	15,005	3,281	18,286
2013	16,433	2,417	18,850
2014	17,148	1,493	18,641
2015	18,517	571	19,088
	<u>\$ 81,393</u>	<u>\$ 11,849</u>	<u>\$ 93,242</u>

**NOTE 14: COMMITMENTS AND CONTINGENCIES**Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2010, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Construction and Acquisition Commitments

As of September 30, 2010, the City had entered into contractual commitments with contractors for various City projects. These projects include the 2007 and 2009 annexation projects. The total commitments were \$2,250,155 as of year-end. The commitments are being funded by bond proceeds.

**NOTE 15: ISSUED BUT NON-EFFECTIVE PRONOUNCEMENT**

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. The Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances – nonspendable, restricted, committed, assigned, and unassigned. The Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of the Statement are effective for periods beginning after June 15, 2010.

**NOTE 16: SUBSEQUENT EVENT**

There were no events, which occurred subsequent to the fiscal year-end and prior to the issuance of this report, which would have a material effect on the City's financial position as of September 30, 2010.

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**NOTE 17: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC.**

As described in Note 1, the City Development Corporation of El Campo, Inc. is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit.

A. Organization

The City Development Corporation of El Campo, Inc. (CDC) was formed as a non-profit corporation governed by the Texas Development Corporation Act of 1979, as amended. The purpose of the CDC was to promote, assist, and enhance economic development in the City.

CDC directors are appointed and/or removed by the City Council of the City and the CDC is therefore a component unit of the City.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of CDC conform to GAAP, as applicable to governmental units. For inclusion in this report, CDC's operations are reported as a governmental fund type.

The budget is adopted on a GAAP basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General Fund.

C. Legal Compliance - Budget

The CDC director prepares an estimate of revenues and expenditures. The Board of Directors adopts a budget based on these estimates. Before being formalized, the City Council must approve the budget.

Amendments to the budget may be made by the Board of Directors at the object level. Expenditures may not exceed legally budgeted appropriations in total. At September 30, 2010, actual expenditures exceeded budgetary estimates by \$478,897. Although approved, CDC Board of Directors did not formally amend the 2010 budget for the payoff of the note balance at Prosperity Bank.

D. Deposits and Investments

As of September 30, 2010, CDC had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Months)</u>
Certificates of Deposit	\$ 404,404	41

Interest Rate Risk

In accordance with CDC's investment policy, CDC manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments of "unmatched funds", to less than two years from the time of purchase. Also, only 20% or less of these "unmatched funds" can be invested for a period greater than one year. Matched funds are defined as those investments that are matched with anticipated cash flow requirements. CDC's certificates of deposits are not matched with specific requirements and have original maturities that are 24 months and 60 months. Therefore, the certificates of deposits are exposed to interest rate risk.

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**NOTE 17: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)**

D. Deposits and Investments - (Continued)

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. CDC was not exposed to credit risk.

Concentration of Credit Risk

CDC's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, CDC was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

CDC's custodial credit risk refers to the risk that in the event of a bank failure, CDC's deposits may not be returned to it. CDC's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to CDC by the depository in an amount equal to at least 102% of the carrying value of deposits held.

As of September 30, 2010, CDC had deposits in two local financial institutions and the deposits were FDIC insured at each institution up to \$250,000. At September 30, 2010, \$139,045 of CDC's bank balance of \$538,074 was exposed to custodial credit risk because it was uninsured by the FDIC and no deposits were collateralized with securities pledged to CDC by the financial institution.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, CDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. CDC was not exposed to custodial credit risk.

E. Sales Taxes

CDC, by law, is to receive one-sixth of the sales tax earned by the City and paid monthly to the City by the State of Texas. CDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2010, was \$76,191. The City collects the sales tax from the State of Texas and then pays CDC's portion monthly when collected.

F. Note Receivable

On October 11, 1995, as part of the revolving loan program, CDC loaned Prairie Rose Clothiers \$20,000, with principal and interest (5.25%) due in equal monthly installments of \$255.59 on the eleventh day of each month through October 11, 2013. The total annual payments for the note receivable outstanding balance at September 30, 2010, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,673	\$ 394	\$ 3,067
2012	2,817	250	3,067
2013	2,969	98	3,067
2014	254	2	256
	<u>\$ 8,713</u>	<u>\$ 744</u>	<u>\$ 9,457</u>

**NOTE 17: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)**

G. Capital Assets

CDC's capital asset activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 164,378	\$ -	\$ -	\$ 164,378
Total capital assets not being depreciated	<u>164,378</u>	<u>-</u>	<u>-</u>	<u>164,378</u>
Capital assets being depreciated				
Buildings	1,990,006	43,245	-	2,033,251
Office equipment	16,840	-	-	16,840
Total capital assets being depreciated	<u>2,006,846</u>	<u>43,245</u>	<u>-</u>	<u>2,050,091</u>
Less accumulated depreciation for				
Buildings	530,107	52,153	-	582,260
Office equipment	16,841	-	-	16,841
Total accumulated depreciation	<u>546,948</u>	<u>52,153</u>	<u>-</u>	<u>599,101</u>
Total capital assets being depreciated, net	<u>1,459,898</u>	<u>(8,908)</u>	<u>-</u>	<u>1,450,990</u>
Governmental activities capital assets, net	<u>\$ 1,624,276</u>	<u>\$ (8,908)</u>	<u>\$ -</u>	<u>\$ 1,615,368</u>

H. Long-term Debt

During the year ended September 30, 2010, the following changes occurred in CDC's long-term debt:

	<u>Notes Payable</u>		
	<u>City of El Campo, Texas</u>	<u>Prosperity Bank</u>	<u>Total</u>
Balance, beginning of year	\$ 94,254	\$ 661,538	\$ 755,792
New issues	-	-	-
Principal retirements	<u>(12,861)</u>	<u>(661,538)</u>	<u>(674,399)</u>
Balance, end of year	<u>\$ 81,393</u>	<u>\$ -</u>	<u>\$ 81,393</u>
Due within one year	<u>\$ 14,290</u>	<u>\$ -</u>	<u>\$ 14,290</u>

Notes Payable to City of El Campo, Texas

On June 7, 1995, CDC received \$200,000 from the City as part of the City's Tax and Revenue Certificate of Obligation Series 1995 Bonds of which CDC is obligated to repay. Annual installments ranging from \$16,620 to \$19,088 are due through February 1, 2015, with interest rates varying from 5.5% to 7.5%.

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**NOTE 17: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)****H. Long-term Debt - (Continued)****Summary of Long-term Debt Requirements**

The annual requirements to amortize all CDC's long-term debt outstanding at September 30, 2010, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 14,290	\$ 4,087	\$ 18,377
2012	15,005	3,281	18,286
2013	16,433	2,417	18,850
2014	17,148	1,493	18,641
2015	18,517	571	19,088
	<u>\$ 81,393</u>	<u>\$ 11,849</u>	<u>\$ 93,242</u>

**I. Lessor Agreements**

CDC leases two commercial buildings to unrelated third parties. Substantially all of CDC's capital assets are leased to third parties. The future rentals disclosed below include only the base lease payment and the 5% fee for administrative costs. The variable costs, which are insurance and ad valorem taxes, are not included. The following is an analysis of minimum future rentals due CDC under non-cancelable lease agreements as of September 30, 2010:

<u>Year Ending September 30</u>	
2011	\$ 135,485
2012	105,845
2013	99,845
2014	66,545
2015	66,545
	<u>474,265</u>
Thereafter	<u>665,452</u>
	<u>\$ 1,139,717</u>

**J. Designated Fund Balances**

At September 30, 2010, CDC had \$20,409 designated for contingencies and \$28,044 designated for debt service payments.

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**NOTE 18: EL CAMPO VOLUNTEER FIRE DEPARTMENT**

As described in Note 1, the El Campo Volunteer Fire Department (the "ECVFD") is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit.

A. Organization

The ECVFD was formed as a tax-exempt organization under Code Section 501(c)(3) of the Internal Revenue Code. The purpose of the ECVFD is the preservation and protection of property and lives from and during such fires as may occur in the City and vicinity and any other disaster or situation wherein ECVFD may be of assistance in protecting or promoting the safety and welfare of the public.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of the ECVFD conform to GAAP, as applicable to governmental units. For inclusion in this report, the ECVFD's operations are reported as a governmental fund type.

The budget is adopted on a GAAP basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General and Debt Service Fund.

C. Budget

The budget is adopted on income tax basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General Fund.

D. Cash

The ECVFD has demand deposits, money market accounts, and certificates of deposit that are held by one institution within the State of Texas. The deposits were fully insured by the FDIC at December 31, 2008.

The ECVFD's cash at December 31, 2009, is as follows:

Cash and money market accounts	\$ 141,848
Certificates of deposit	<u>100,000</u>
Total deposits	<u>\$ 241,848</u>

**NOTE 18: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)**

E. Capital Assets

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In compliance with GASB Statement No. 34, depreciation policies were adopted to include useful lives. The following is a summary of the change in capital assets:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Total capital assets not being depreciated	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Capital assets, being depreciated				
Training facility	<u>1,532,391</u>	<u>98,967</u>	<u>-</u>	<u>1,631,358</u>
Total capital assets being depreciated	<u>1,532,391</u>	<u>98,967</u>	<u>-</u>	<u>1,631,358</u>
Less accumulated depreciation for				
Training facility	<u>296,382</u>	<u>70,864</u>	<u>-</u>	<u>367,246</u>
Total accumulated depreciation	<u>296,382</u>	<u>70,864</u>	<u>-</u>	<u>367,246</u>
Total capital assets being depreciated, net	<u>1,236,009</u>	<u>28,103</u>	<u>-</u>	<u>1,264,112</u>
Governmental activities capital assets, net	<u>\$ 1,245,009</u>	<u>\$ 28,103</u>	<u>\$ -</u>	<u>\$ 1,273,112</u>

F. Long-term Debt

On October 23, 2003, the ECVFD opened a construction line of credit at Commercial State Bank for construction of the training facility collateralized by 30 acres of land. On April 19, 2004, the loan was paid off and renewed for \$1,120,000 at 4% payable yearly with the final unpaid principle and interest due April 12, 2029.

During the year ended December 31, 2009, the following changes occurred in the ECVFD long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Construction note	<u>\$ 545,160</u>	<u>\$ -</u>	<u>\$ 71,677</u>	<u>\$ 473,483</u>	<u>\$ 106,172</u>

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**NOTE 18: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)**

F. Long-term Debt - (Continued)

The following is a summary of payments on the note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 106,172	\$ 13,828	\$ 120,000
2011	15,152	12,018	27,170
2012	18,860	13,743	32,603
2013	19,629	12,975	32,604
2014	20,429	12,175	32,604
2015-2019	115,326	47,691	163,017
2020-2024	140,813	22,204	163,017
2025	<u>37,102</u>	<u>934</u>	<u>38,036</u>
	<u>\$ 473,483</u>	<u>\$ 135,568</u>	<u>\$ 609,051</u>

In 2010, the ECVFD borrowed \$84,826 for the purchase of a fire truck.