

CITY OF EL CAMPO, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2011

Courtney Sladek
Director of Finance

Mindi R. Snyder
City Manager

Issued By:
Finance Department

TABLE OF CONTENTS

| | <u>Page</u> | |
|---|-------------|----|
| INTRODUCTORY SECTION | | |
| City Administrators' Letter of Transmittal..... | i | |
| Certificate of Achievement for Excellence in Financial Reporting | v | |
| Organizational Chart..... | vi | |
| Directory of Principal Officials..... | vii | |
| FINANCIAL SECTION | | |
| Independent Auditors' Report..... | 1 | |
| Management's Discussion and Analysis | 3 | |
| <u>Basic Financial Statements</u> | | |
| Government-wide Financial Statements | | |
| Statement of Net Assets | 11 | |
| Statement of Activities..... | 13 | |
| Fund Financial Statements | | |
| Balance Sheet - Governmental Funds..... | 15 | |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities..... | 16 | |
| Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds..... | 17 | |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities..... | 18 | |
| Statement of Net Assets - Proprietary Funds | 19 | |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds | 21 | |
| Statement of Cash Flows - Proprietary Funds | 22 | |
| Statement of Net Assets - Component Units | 26 | |
| Statement of Activities - Component Units | 27 | |
| Notes to Financial Statements | 29 | |
| <u>Required Supplementary Information</u> | | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (GAAP Basis) and Actual - General Fund | | 61 |
| Historical Pension and Other Postemployment Benefits Information | | 62 |
| Notes to Required Supplementary Information..... | | 65 |
| <u>Combining and Individual Fund Statements and Schedules</u> | | |
| <i>Governmental Funds</i> | | |
| Combining Statements | | |
| Combining Balance Sheet - All Nonmajor Governmental Funds | 66 | |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Nonmajor Governmental Funds | | 67 |

| | <u>Page</u> |
|--|-------------|
| FINANCIAL SECTION - (Continued) | |
| <u>Combining and Individual Fund Statements and Schedules - (Continued)</u> | |
| <i>Governmental Funds - (Continued)</i> | |
| Combining Statements - (Continued) | |
| Nonmajor Special Revenue Funds..... | 68 |
| Combining Balance Sheet - Nonmajor Special Revenue Funds | 69 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds..... | 71 |
| Nonmajor Capital Project Funds..... | 73 |
| Combining Balance Sheet - Nonmajor Capital Project Funds..... | 74 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Project Funds..... | 75 |
| Individual Statements and Schedules | |
| General Fund..... | 76 |
| Balance Sheet..... | 77 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual | 78 |
| Nonmajor Debt Service Fund | 82 |
| Balance Sheet..... | 83 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual | 84 |
| <i>Proprietary Funds</i> | |
| Individual Statements and Schedules | |
| Enterprise Funds..... | 85 |
| Utility Fund | |
| Balance Sheet..... | 86 |
| Schedule of Revenues, Expenses, and Change in Fund Net Assets - Budget (Non-GAAP Basis) and Actual..... | 88 |
| Emergency Medical Services Fund | |
| Balance Sheet..... | 89 |
| Schedule of Revenues, Expenses, and Change in Fund Net Assets - Budget (Non-GAAP Basis) and Actual..... | 90 |
| STATISTICAL SECTION | 91 |
| <u>Financial Trends</u> | |
| Net Assets by Component..... | 92 |
| Changes in Net Assets..... | 94 |
| Fund Balances, Governmental Funds..... | 98 |
| Changes in Fund Balances, Governmental Funds..... | 100 |
| Tax Revenues by Source, Governmental Funds | 102 |

STATISTICAL SECTION - (Continued)

Revenue Capacity

| | |
|---|-----|
| Assessed and Estimated Actual Value of Taxable Property | 103 |
| Direct and Overlapping Property Tax Rates..... | 105 |
| Principal Property Taxpayers (Unaudited) | 107 |
| Property Tax Levies and Collections | 108 |
| Water Produced and Consumed and Wastewater Treated | 109 |
| Ten Largest Water Customers (Unaudited)..... | 111 |

Debt Capacity

| | |
|---|-----|
| Ratios of Outstanding Debt by Type..... | 112 |
| Ratios of Net General Bonded Debt Outstanding | 114 |
| Direct and Overlapping Governmental Activities Debt (Unaudited) | 116 |
| Pledged-Revenue Coverage | 117 |

Demographic and Economic Information

| | |
|--|-----|
| Demographic and Economic Statistics (Unaudited)..... | 118 |
| Principal Employers (Unaudited)..... | 119 |

Operating Information

| | |
|--|-----|
| Full-Time-Equivalent City Government Employees by Function/Program | 120 |
| Operating Indicators by Function/Program..... | 122 |
| Capital Asset Statistics by Function/Program | 124 |

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

| | |
|---|-----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 126 |
|---|-----|

INTRODUCTORY SECTION



February 13, 2012

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, 2011, 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 auditors' 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 11,602. 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.

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 following were goals of the FY10-11 Adopted Budget: be responsive to citizenry, create appealing character throughout the community, upgrade street standards, maintain parks system, and assure quality standards for utility systems.

The FY11 Adopted Budget was unable to include increases for all positions or any additional personnel. In addition, most capital was deferred until El Campo was able to recover from the economic downturn. As a result, the budget for FY11 included base budgets to fund existing programs but did not focus heavily on new infrastructure or programs. While focusing on the goals listed above, the City utilized existing resources and in some instances, shifted resources to meet the needs.

The FY11 Adopted Budget included additional funding for the seal coating program and \$15,000 in committed funds to replace park equipment.

Finally, the FY11 Adopted Budget included funding to continue water and sewer upgrades in the older parts of the City.

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

In 2007, the City worked with the Lower Colorado River Authority on the update of the City's Comprehensive Plan. This plan has served as a guide for policy decisions relating to the physical and economic development of the community. This plan celebrates the success of the City's accomplishments and provides a clear, organized capital improvements program.

In addition, the City hosted its first Strategic Planning retreat with Council and the management staff. Several priorities were identified in the retreat. Listed below are goals and short and long term objectives. Also included are budget action items that address these goals and objectives.

- Focus on economic development: The City has partnered with the City Development Corporation (CDC) to work on advancing an economic development program that upholds community values, builds on investments made by the community and supports expectations of the City's level of service. Included in the FY12 is a new Division, Economic Development, which includes the CDC Director and associated costs.
- Increase Housing Diversity: The City continues to meet with developers and offer residential developers incentives in an effort to diversity housing.
- Continue to work on personnel development: In FY12, the City will take several steps to focus on its most valuable resources, the human infrastructure, that is the City employees.
- Finally, the City will continue to develop a Park on the west side of town. The site has been secured and a West Loop Park Advisory Committee has been put into place, laying the groundwork for a park on the west side of El Campo.

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 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.

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

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, 2010. 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.

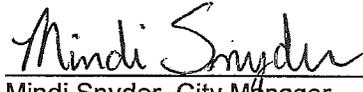
ACKNOWLEDGMENTS

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, 2010

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.

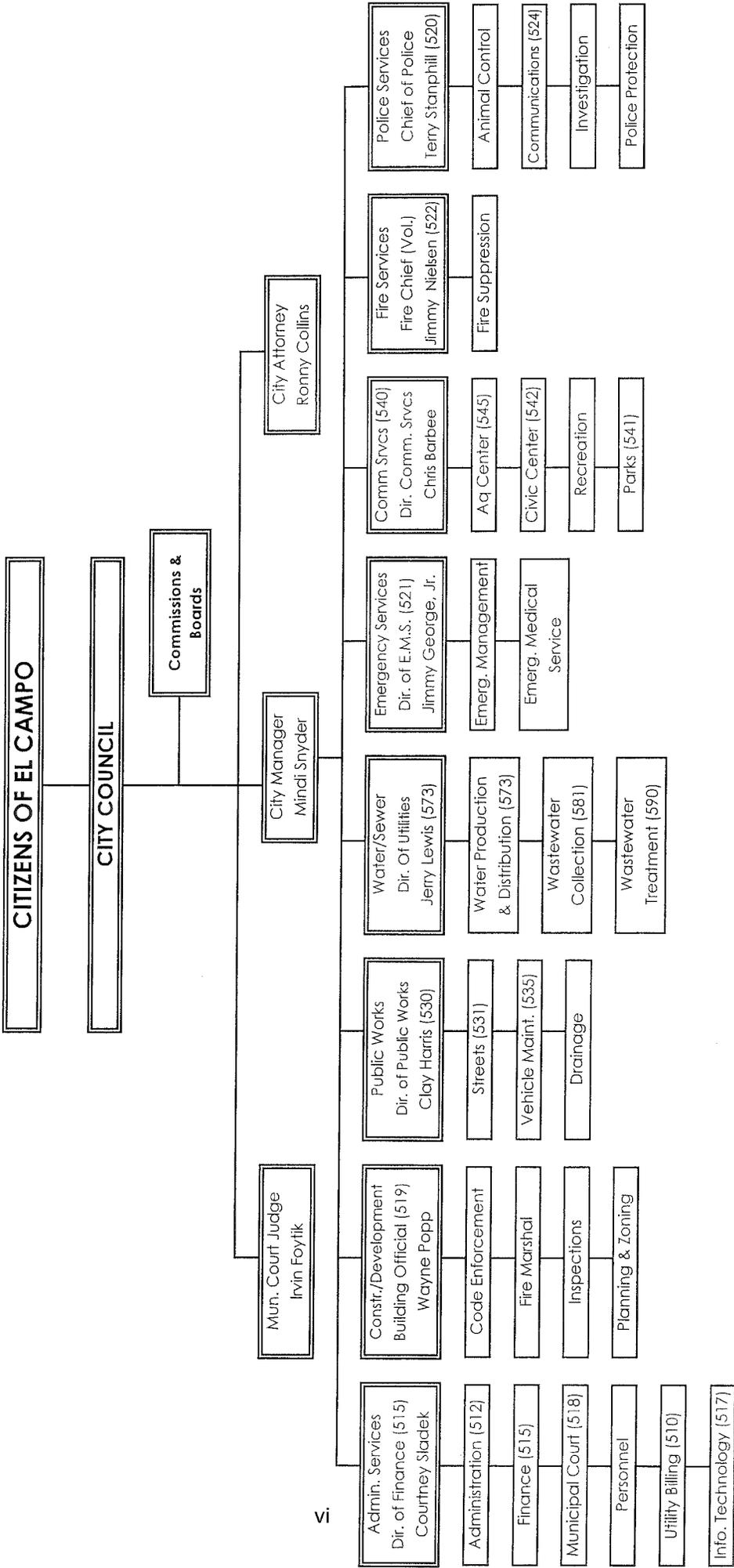


Linda C. Davison

President

Jeffrey R. Emer

Executive Director



City Officials

Richard Young
Anthony Collins
Steve Ward
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



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
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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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 \$1,591,441 as of December 31, 2010, and total revenues of \$337,270 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012, 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, budgetary comparison information, and historical pension and other postemployment benefits information on pages 3 through 10 and 61 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City'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 & Uhenk, LLP

February 6, 2012

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2011, by \$27,717,308. Of this amount, \$7,054,967 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 \$13,260,849 for the fiscal year. The net expense was \$5,844,878.
- During the year, the City's net expenses exceeded general revenues of the governmental activities by \$59,648. This represents a 0.35% decrease in net assets from the previous fiscal year as a result of operations.
- At September 30, 2011, the City's governmental funds reported combined ending fund balances of \$4,734,494, a net increase of \$356,321 in comparison with prior year. The net increase in fund balance was primarily made up of an increase of \$514,429 in the General Fund.
- At September 30, 2011, unassigned fund balance for the General Fund was \$3,774,325 or 54.37% 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 60

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.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintained ten individual governmental funds during the 2011 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 \$27,717,308 at the close of the fiscal year 2011.

By far, the largest portion of the City's net assets (73.12%) 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 | |
|--|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| ASSETS | | | | | | |
| Current assets | \$ 5,691,441 | \$ 5,173,672 | \$ 3,634,328 | \$ 5,267,551 | \$ 9,325,769 | \$ 10,441,223 |
| Capital assets (net) | 14,464,629 | 15,238,958 | 16,384,982 | 14,868,458 | 30,849,611 | 30,107,416 |
| Other noncurrent assets | 112,883 | 131,879 | 153,682 | 163,081 | 266,565 | 294,960 |
| Total assets | <u>20,268,953</u> | <u>20,544,509</u> | <u>20,172,992</u> | <u>20,299,090</u> | <u>40,441,945</u> | <u>40,843,599</u> |
| LIABILITIES | | | | | | |
| Current liabilities | 846,845 | 825,450 | 1,192,765 | 1,182,902 | 2,039,610 | 2,008,352 |
| Noncurrent liabilities | 2,677,123 | 2,914,426 | 8,007,904 | 8,550,134 | 10,685,027 | 11,464,560 |
| Total liabilities | <u>3,523,968</u> | <u>3,739,876</u> | <u>9,200,669</u> | <u>9,733,036</u> | <u>12,724,637</u> | <u>13,472,912</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 12,096,688 | 12,651,611 | 8,171,231 | 8,185,040 | 20,267,919 | 20,836,651 |
| Restricted | 394,422 | 596,548 | - | - | 394,422 | 596,548 |
| Unrestricted | 4,253,875 | 3,556,474 | 2,801,092 | 2,381,014 | 7,054,967 | 5,937,488 |
| Total net assets | <u>\$ 16,744,985</u> | <u>\$ 16,804,633</u> | <u>\$ 10,972,323</u> | <u>\$ 10,566,054</u> | <u>\$ 27,717,308</u> | <u>\$ 27,370,687</u> |

An additional portion of the City's net assets (1.42%) 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 (\$7,054,967) 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 \$59,648. Key elements of this decrease are as follows:

- Property taxes increased \$169,208 (6.40%). This is due to the increase in the taxable assessed valuations in tax year 2010.
- Sales tax revenues increased \$243,872 (11.28%) due to the strengthening economy.
- Public safety expenses decreased \$150,338 (4.51%) primarily due to a decline in personnel costs in fiscal year 2011.
- Public works expenses increased \$271,305 (14.03%) primarily due to street personnel and maintenance costs that were incurred in fiscal year 2011 in excess of fiscal year 2010.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities. Business-type activities increased the City's net assets by \$406,269. The key element of this increase relates to the large increase in charges for services of utilities in the amount of \$658,872 or 15.19% during fiscal year 2011. The increase in usage was due to the drought in 2011 and was accompanied by an increase in customer usage rates.

| City of El Campo, Texas | | | | | | |
|---------------------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| Changes in Net Assets | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,000,002 | \$ 1,022,048 | \$ 5,385,802 | \$ 4,631,554 | \$ 6,385,804 | \$ 5,653,602 |
| Operating grants and contributions | 162,233 | 148,542 | 796,510 | 655,472 | 958,743 | 804,014 |
| Capital grants and contributions | 71,424 | - | - | - | 71,424 | - |
| General revenues: | | | | | | |
| Property taxes | 2,811,094 | 2,641,886 | - | - | 2,811,094 | 2,641,886 |
| Sales taxes | 2,405,245 | 2,161,373 | - | - | 2,405,245 | 2,161,373 |
| Franchise taxes | 650,585 | 603,132 | - | - | 650,585 | 603,132 |
| Other taxes | 104,512 | 102,424 | - | - | 104,512 | 102,424 |
| Unrestricted investment earnings | 38,222 | 57,935 | 8,725 | 23,680 | 46,947 | 81,615 |
| Miscellaneous | 173,116 | 295,309 | - | - | 173,116 | 295,309 |
| Total revenues | <u>7,416,433</u> | <u>7,032,649</u> | <u>6,191,037</u> | <u>5,310,706</u> | <u>13,607,470</u> | <u>12,343,355</u> |
| EXPENSES | | | | | | |
| General government | 1,748,982 | 1,700,404 | - | - | 1,748,982 | 1,700,404 |
| Public safety | 3,181,009 | 3,331,347 | - | - | 3,181,009 | 3,331,347 |
| Public works | 2,205,043 | 1,933,738 | - | - | 2,205,043 | 1,933,738 |
| Parks and recreation | 682,760 | 745,235 | - | - | 682,760 | 745,235 |
| Interest on long-term debt | 136,246 | 144,355 | - | - | 136,246 | 144,355 |
| Utilities | - | - | 4,269,546 | 4,219,111 | 4,269,546 | 4,219,111 |
| Emergency medical services | - | - | 1,037,263 | 1,050,632 | 1,037,263 | 1,050,632 |
| Total expenses | <u>7,954,040</u> | <u>7,855,079</u> | <u>5,306,809</u> | <u>5,269,743</u> | <u>13,260,849</u> | <u>13,124,822</u> |
| Change in net assets before transfers | (537,607) | (822,430) | 884,228 | 40,963 | 346,621 | (781,467) |
| Transfers | 477,959 | (196,916) | (477,959) | 196,916 | - | - |
| Change in net assets | (59,648) | (1,019,346) | 406,269 | 237,879 | 346,621 | (781,467) |
| Net assets - beginning | <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> |
| Net assets - ending | <u>\$ 16,744,985</u> | <u>\$ 16,804,633</u> | <u>\$ 10,972,323</u> | <u>\$ 10,566,054</u> | <u>\$ 27,717,308</u> | <u>\$ 27,370,687</u> |

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 \$4,734,494, an increase of \$356,321 from the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$3,774,325. Unassigned fund balance represents 54.37% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$514,429 during fiscal year 2011. This was primarily due to the increase in both ad valorem and sales tax revenues (\$475,110) during fiscal year 2011 over 2010.

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 \$2,447,378 and \$353,714, respectively. The net growth for the funds was \$406,269.

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 \$174,804 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$63,210 for the Police department and \$54,765 for the Communications department due to personnel cost savings.

The fiscal year 2011 budget was amended from the original budget adopted by Council. The following were included in the amendment:

- \$18,620 appropriation for residential developer incentives;
- \$42,407 increase in major equipment provided through grant funds;
- \$43,301 increase in police vehicles related to grants;
- \$13,848 increase in the fire department's major equipment line-item for the purchase of a breathing compressor;
- \$20,000 increase in regular earnings in public works administration for expenditures associated with the departure of the former Public Works Director (personal leave and sick leave pay-out) and the Interim Public Works Director;
- \$14,500 decrease in regular earnings in the streets department as a transfer of appropriations to vehicle and machinery maintenance to offset repair costs with salary savings due to turnover;
- \$19,000 increase in gas and oil to account for the increase in fuel prices in the streets department;
- \$19,000 decrease in weed control, transfer funds to gas and oil;
- \$16,500 increase in minor equipment in the streets department to recognize equipment costs associated with the City's quiet zone;
- \$30,000 increase in vehicle and machinery maintenance in the streets department for repair costs associated with the major equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$30,849,611 (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 2.47% (a 5.08% decrease for governmental activities and a 10.20% increase in business-type activities). Major capital asset events during the current fiscal year included the following:

- The net additions to equipment for governmental activities were \$80,669. Additions for fiscal year 2011 included the purchase of three police vehicles and various other equipment.
- As of September 30, 2011, the annexation water and sewer project was completed and costs totaled \$4,816,673.
- Additions to equipment for the Emergency Medical Services Fund included the purchase of a 2011 ambulance in the amount of \$125,650.

City of El Campo, Texas

Capital Assets (Net of Depreciation)

| | <u>Governmental</u> | | <u>Business-type</u> | | <u>Total</u> | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Land | \$ 491,945 | \$ 491,945 | \$ 30,498 | \$ 16,021 | \$ 522,443 | \$ 507,966 |
| Machinery and equipment | 1,541,582 | 1,653,813 | 538,915 | 462,564 | 2,080,497 | 2,116,377 |
| Bldgs. and improvements | 4,976,417 | 5,175,458 | 705,171 | 757,623 | 5,681,588 | 5,933,081 |
| Water works system | - | - | 8,809,469 | 6,745,779 | 8,809,469 | 6,745,779 |
| Sewer system | - | - | 6,283,981 | 4,058,941 | 6,283,981 | 4,058,941 |
| Infrastructure | 7,454,685 | 7,917,742 | - | - | 7,454,685 | 7,917,742 |
| Construction in progress | - | - | 16,948 | 2,827,528 | 16,948 | 2,827,528 |
| Total | \$ 14,464,629 | \$ 15,238,958 | \$ 16,384,982 | \$ 14,868,456 | \$ 30,849,611 | \$ 30,107,414 |

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 \$10,070,000. Of this amount, \$280,000 represents General Obligation Refunding Bonds, Series 1998. The remainder of the City's bonded debt represents \$9,790,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, 2004, 2007, 2008 and 2010. The City's bonded debt had a decrease of \$580,000 or 5.45% during the fiscal year ended September 30, 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt - (Continued)

The City maintains a bond rating of "A+" 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 2011, the City made payments on the outstanding capital leases in the amount of \$215,908. The balance on all capital leases at September 30, 2011 was \$1,236,538.

Additional information on the City's long-term debt can be found in Note 12 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The sales tax payments received by the City from the State Comptroller and retained by the City, increased in fiscal year 2011 by \$243,872 or 11.28%. This increase indicated the strengthening of the local economy. The City continues to monitor this revenue source for fiscal year 2012.
- The City maintained the water, sewer and garbage rates for 2012.
- The 2012 budget methodology has been changed to more accurately reflect fund related expenditures such as the tax supported utility debt service that has been reflected in the Utility Fund in the past and is now being shown as a transfer to the Debt Service Fund.
- Also included in the fiscal year 2012 budget is a Capital Improvement Program that has allowed us to budget for operations only in the fund budgets and transfer the surplus funds to address capital needs.
- On a fund by fund basis, the needs were assessed and the only items that were allowed to increase the base budget involved areas of emphasis on the employees such as training and travel where amounts had been reduced to unrealistic levels. Department heads were encouraged to shift funds within their respective budgets as deemed necessary.

All of these factors were considered in preparing the City's budget for the 2011-2012 fiscal year.

The certified assessed taxable property valuations for the 2011 tax roll total \$465,467,468 and \$381,281 for the senior tax freeze, with a tax rate of \$0.52538 per \$100 valuation. The decrease in the tax rate from the prior year was a direct result of the increase in the taxable value and the continually increasing operating costs. \$0.47063 was allocated for maintenance and operations, and \$0.05475 was allocated for interest and sinking (debt service). The projected total property tax due is \$2,713,684 for the 2011 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, 2011

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 2,840,447 | \$ 1,622,828 | \$ 4,463,275 | \$ 280,270 |
| Investments | 1,607,028 | 700,366 | 2,307,394 | 1,437,330 |
| Receivables (net) | 611,321 | 993,673 | 1,604,994 | - |
| Internal balances | 9,358 | (9,358) | - | - |
| Due from other governments | 521,105 | - | 521,105 | - |
| Due from primary government | - | - | - | 86,816 |
| Notes receivable | 15,005 | - | 15,005 | 19,748 |
| Deferred expenditures/expenses | 65,249 | 32,557 | 97,806 | - |
| Inventory | 21,928 | - | 21,928 | - |
| Restricted assets | | | | |
| Cash and cash equivalents | - | 294,262 | 294,262 | - |
| Total current assets | 5,691,441 | 3,634,328 | 9,325,769 | 1,824,164 |
| Noncurrent assets | | | | |
| Capital assets | | | | |
| Land and other assets not being depreciated | 491,945 | 47,446 | 539,391 | 173,378 |
| Buildings, infrastructure, and equipment (net) | 13,972,684 | 16,337,536 | 30,310,220 | 2,270,065 |
| Bond issue costs (net) | 60,785 | 153,682 | 214,467 | - |
| Notes receivable (net) | 52,098 | - | 52,098 | 11,768 |
| Total noncurrent assets | 14,577,512 | 16,538,664 | 31,116,176 | 2,455,211 |
| Total assets | 20,268,953 | 20,172,992 | 40,441,945 | 4,279,375 |

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 92,327 | \$ 307,068 | \$ 399,395 | \$ 19,052 |
| Accrued expenses/expenditures | 127,427 | 42,236 | 169,663 | - |
| Deposits | 11,381 | 179,707 | 191,088 | - |
| Accrued interest payable | 20,433 | 63,366 | 83,799 | - |
| Due to component unit | 86,816 | - | 86,816 | - |
| Due to other governments | 56,818 | - | 56,818 | - |
| Claims payable | 62,855 | - | 62,855 | - |
| Accrued compensated absences | 155,667 | 56,332 | 211,999 | - |
| Current portion of long-term obligations | 233,121 | 544,056 | 777,177 | 199,831 |
| Total current liabilities | 846,845 | 1,192,765 | 2,039,610 | 218,883 |
| Noncurrent liabilities | | | | |
| Accrued compensated absences | 111,719 | 43,947 | 155,666 | - |
| Noncurrent portion of long-term obligations | 2,565,404 | 7,963,957 | 10,529,361 | 319,409 |
| Total noncurrent liabilities | 2,677,123 | 8,007,904 | 10,685,027 | 319,409 |
| Total liabilities | 3,523,968 | 9,200,669 | 12,724,637 | 538,292 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 12,096,688 | 8,171,231 | 20,267,919 | 1,924,203 |
| Restricted for: | | | | |
| Debt service | 273,198 | - | 273,198 | - |
| Special projects - municipal court | 21,203 | - | 21,203 | - |
| Other purposes | 100,021 | - | 100,021 | 10,786 |
| Unrestricted net assets | 4,253,875 | 2,801,092 | 7,054,967 | 1,806,094 |
| Total net assets | \$ 16,744,985 | \$ 10,972,323 | \$ 27,717,308 | \$ 3,741,083 |

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2011

| <u>Function/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--------------------------------|----------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government | \$ 1,748,982 | \$ 131,517 | \$ - | \$ - |
| Public safety | 3,181,009 | 580,613 | 162,233 | 71,424 |
| Public works | 2,205,043 | 55,955 | - | - |
| Parks and recreation | 682,760 | 231,917 | - | - |
| Interest on long-term debt | 136,246 | - | - | - |
| Total governmental activities | <u>7,954,040</u> | <u>1,000,002</u> | <u>162,233</u> | <u>71,424</u> |
| Business-type activities | | | | |
| Utilities | 4,269,546 | 4,996,082 | - | - |
| Emergency medical services | 1,037,263 | 389,720 | 796,510 | - |
| Total business-type activities | <u>5,306,809</u> | <u>5,385,802</u> | <u>796,510</u> | <u>-</u> |
| Total primary government | <u>\$ 13,260,849</u> | <u>\$ 6,385,804</u> | <u>\$ 958,743</u> | <u>\$ 71,424</u> |
| Component Units | <u>\$ 564,068</u> | <u>\$ 243,347</u> | <u>\$ 178,426</u> | <u>\$ 16,667</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
- Gain on sale of capital assets
- 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 |
| \$ (1,617,465) | \$ - | \$ (1,617,465) | \$ - |
| (2,366,739) | - | (2,366,739) | - |
| (2,149,088) | - | (2,149,088) | - |
| (450,843) | - | (450,843) | - |
| (136,246) | - | (136,246) | - |
| <u>(6,720,381)</u> | <u>-</u> | <u>(6,720,381)</u> | <u>-</u> |
| - | 726,536 | 726,536 | - |
| - | 148,967 | 148,967 | - |
| - | <u>875,503</u> | <u>875,503</u> | - |
| <u>(6,720,381)</u> | <u>875,503</u> | <u>(5,844,878)</u> | - |
| - | - | - | (125,628) |
| 2,531,345 | - | 2,531,345 | - |
| 279,749 | - | 279,749 | - |
| 2,405,245 | - | 2,405,245 | 480,839 |
| 650,585 | - | 650,585 | - |
| 104,512 | - | 104,512 | - |
| 38,222 | 8,725 | 46,947 | 14,649 |
| - | - | - | 165,430 |
| 173,116 | - | 173,116 | 11,048 |
| 477,959 | (477,959) | - | - |
| <u>6,660,733</u> | <u>(469,234)</u> | <u>6,191,499</u> | <u>671,966</u> |
| (59,648) | 406,269 | 346,621 | 546,338 |
| <u>16,804,633</u> | <u>10,566,054</u> | <u>27,370,687</u> | <u>3,194,745</u> |
| <u>\$ 16,744,985</u> | <u>\$ 10,972,323</u> | <u>\$ 27,717,308</u> | <u>\$ 3,741,083</u> |

CITY OF EL CAMPO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2011

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,882,819 | \$ 818,932 | \$ 2,701,751 |
| Investments | 1,607,028 | - | 1,607,028 |
| Receivables (net) | 503,908 | 107,413 | 611,321 |
| Due from other funds | 125,103 | - | 125,103 |
| Due from other governments | 521,105 | - | 521,105 |
| Note receivable from component unit | - | 15,005 | 15,005 |
| Deferred expenditures | 65,249 | - | 65,249 |
| Inventory | 21,928 | - | 21,928 |
| Noncurrent assets | | | |
| Note receivable from component unit (net) | - | 52,098 | 52,098 |
| Total assets | <u>\$ 4,727,140</u> | <u>\$ 993,448</u> | <u>\$ 5,720,588</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Accounts payable | \$ 73,581 | \$ 18,746 | \$ 92,327 |
| Accrued expenditures | 127,427 | - | 127,427 |
| Deposits | 11,381 | - | 11,381 |
| Due to component unit | 86,816 | - | 86,816 |
| Due to other governments | 56,818 | - | 56,818 |
| Due to other funds | 95,558 | 20,187 | 115,745 |
| Deferred revenue | 414,057 | 81,523 | 495,580 |
| Total liabilities | <u>865,638</u> | <u>120,456</u> | <u>986,094</u> |
| Fund balances | | | |
| Nonspendable | 87,177 | 52,098 | 139,275 |
| Restricted | - | 811,224 | 811,224 |
| Committed | - | 9,670 | 9,670 |
| Unassigned | 3,774,325 | - | 3,774,325 |
| Total fund balances | <u>3,861,502</u> | <u>872,992</u> | <u>4,734,494</u> |
| Total liabilities and fund balances | <u>\$ 4,727,140</u> | <u>\$ 993,448</u> | <u>\$ 5,720,588</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, 2011

| | |
|--|-----------------------------|
| Total governmental fund balances | \$ 4,734,494 |
| <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. | 75,841 |
| 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. | 304,390 |
| 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. | 191,190 |
| Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$34,764,875 and the accumulated depreciation is \$20,300,246. | 14,464,629 |
| 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 \$19,030. | 60,785 |
| 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 | \$ (2,751,062) |
| Capital leases payable | (47,463) |
| Accrued interest payable | (20,433) |
| Compensated absences | <u>(267,386)</u> |
| | <u>(3,086,344)</u> |
| Net assets of governmental activities | <u>\$ 16,744,985</u> |

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, 2011

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 5,685,143 | \$ 384,018 | \$ 6,069,161 |
| Licenses and permits | 86,460 | - | 86,460 |
| Intergovernmental | 207,131 | - | 207,131 |
| Charges for services | 248,181 | 36,224 | 284,405 |
| Fines and forfeitures | 530,895 | 40,205 | 571,100 |
| Investment income | 29,973 | 7,821 | 37,794 |
| Industrial agreement | 14,823 | - | 14,823 |
| Miscellaneous | 93,915 | 77,784 | 171,699 |
| Total revenues | <u>6,896,521</u> | <u>546,052</u> | <u>7,442,573</u> |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,596,827 | 51,710 | 1,648,537 |
| Public safety | 3,118,815 | 54,305 | 3,173,120 |
| Public works | 1,557,341 | 172,550 | 1,729,891 |
| Parks and recreation | 669,346 | - | 669,346 |
| Capital outlay | - | 65,980 | 65,980 |
| Debt service | | | |
| Principal retirement | - | 172,872 | 172,872 |
| Interest and fiscal charges | - | 133,641 | 133,641 |
| Total expenditures | <u>6,942,329</u> | <u>651,058</u> | <u>7,593,387</u> |
| Excess (deficiency) of revenues over expenditures | (45,808) | (105,006) | (150,814) |
| OTHER FINANCING SOURCES (USES) | | | |
| Sale of capital assets | 15,845 | - | 15,845 |
| Transfers in | 544,392 | - | 544,392 |
| Transfers out | - | (53,102) | (53,102) |
| Total other financing sources (uses) | <u>560,237</u> | <u>(53,102)</u> | <u>507,135</u> |
| Net change in fund balances | 514,429 | (158,108) | 356,321 |
| Fund balances at beginning of year | <u>3,347,073</u> | <u>1,031,100</u> | <u>4,378,173</u> |
| Fund balances at end of year | <u>\$ 3,861,502</u> | <u>\$ 872,992</u> | <u>\$ 4,734,494</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, 2011*

| | | |
|---|----------------|---------------------------|
| Total net change in fund balances - governmental funds | | \$ 356,321 |
| <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. | | 104,183 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. | | (12,425) |
| 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 2010/2011 capital outlay is to increase net assets. | | 257,143 |
| 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. | | (1,019,047) |
| 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 | \$ 172,872 | |
| Capital lease principal retirement | <u>105,943</u> | 278,815 |
| 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 | (40,072) | |
| Other revenues | <u>10,085</u> | (29,987) |
| 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 | 7,954 | |
| Decrease in accrued interest | 1,386 | |
| Decrease in bond issue costs | <u>(3,991)</u> | <u>5,349</u> |
| Change in net assets of governmental activities | | \$ <u>(59,648)</u> |

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2011

| | Business-type Activities | | |
|--|--------------------------|-------------------------------|----------------------|
| | Utility | Emergency Medical Services | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,560,292 | \$ 62,536 | \$ 1,622,828 |
| Investments | 700,366 | - | 700,366 |
| Receivables (net) | 619,969 | 373,704 | 993,673 |
| Due from other funds | 95,558 | - | 95,558 |
| Prepaid expenses | 28,527 | 4,030 | 32,557 |
| Restricted assets | | | |
| Cash and cash equivalents | 294,262 | - | 294,262 |
| Total current assets | 3,298,974 | 440,270 | 3,739,244 |
| Noncurrent assets | | | |
| Capital assets | | | |
| Land and other assets not being depreciated | 47,446 | - | 47,446 |
| Buildings, improvements, and equipment (net) | 16,037,966 | 299,570 | 16,337,536 |
| Bond issue costs (net) | 153,682 | - | 153,682 |
| Total noncurrent assets | 16,239,094 | 299,570 | 16,538,664 |
| Total assets | 19,538,068 | 739,840 | 20,277,908 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 301,613 | 5,455 | 307,068 |
| Accrued expenses | 19,512 | 22,724 | 42,236 |
| Deposits | 179,707 | - | 179,707 |
| Accrued interest payable | 63,366 | - | 63,366 |
| Due to other funds | 104,916 | - | 104,916 |
| Claims payable | - | - | - |
| Compensated absences | 25,705 | 30,627 | 56,332 |
| Current portion of capital leases | 114,714 | - | 114,714 |
| Current portion of general obligation bonds | 256,816 | - | 256,816 |
| Current portion of certificates of obligation | 172,526 | - | 172,526 |
| Total current liabilities | 1,238,875 | 58,806 | 1,297,681 |
| Noncurrent liabilities | | | |
| Compensated absences | 16,197 | 27,750 | 43,947 |
| Capital leases, net of current portion | 1,074,361 | - | 1,074,361 |
| Certificates of obligation, net of current portion | 6,889,596 | - | 6,889,596 |
| Total noncurrent liabilities | 7,980,154 | 27,750 | 8,007,904 |
| Total liabilities | 9,219,029 | 86,556 | 9,305,585 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 7,871,661 | 299,570 | 8,171,231 |
| Unrestricted net assets | 2,447,378 | 353,714 | 2,801,092 |
| Total net assets | \$ 10,319,039 | \$ 653,284 | \$ 10,972,323 |

The accompanying notes are an integral part of this statement.

Governmental
Activities

Internal Service
Fund

\$ 138,696

-
-
-

138,696

-
-
-

138,696

-
-
-

62,855

-
-
-

62,855

-
-
-

62,855

-

75,841

\$ 75,841

CITY OF EL CAMPO, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the year ended September 30, 2011

| | Business-type Activities | | | Governmental |
|---|--------------------------|-------------------------------|----------------------|--------------------------|
| | Utility | Emergency Medical Services | Total | Internal Service Fund |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 4,951,875 | \$ 389,178 | \$ 5,341,053 | \$ 1,014,361 |
| Miscellaneous | 44,207 | 542 | 44,749 | - |
| Total operating revenues | <u>4,996,082</u> | <u>389,720</u> | <u>5,385,802</u> | <u>1,014,361</u> |
| OPERATING EXPENSES | | | | |
| Personnel | 784,156 | 833,902 | 1,618,058 | - |
| Materials and supplies | 63,202 | 51,947 | 115,149 | - |
| Repairs and maintenance | 165,035 | 20,962 | 185,997 | - |
| Other services and charges | 2,215,862 | 74,575 | 2,290,437 | 1,329 |
| Claims expense | - | - | - | 909,277 |
| Depreciation and amortization | 630,250 | 55,877 | 686,127 | - |
| Total operating expenses | <u>3,858,505</u> | <u>1,037,263</u> | <u>4,895,768</u> | <u>910,606</u> |
| Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers | 1,137,577 | (647,543) | 490,034 | 103,755 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment income | 8,518 | 207 | 8,725 | 428 |
| Noncapital grants and contributions | - | 796,510 | 796,510 | - |
| Interest and fiscal charges | (411,041) | - | (411,041) | - |
| Net nonoperating revenues (expenses) | <u>(402,523)</u> | <u>796,717</u> | <u>394,194</u> | <u>428</u> |
| Income before contributions and transfers | 735,054 | 149,174 | 884,228 | 104,183 |
| Contributions and transfers | | | | |
| Capital contributions | - | 13,331 | 13,331 | - |
| Transfers out | (484,020) | (7,270) | (491,290) | - |
| Total contributions and transfers | <u>(484,020)</u> | <u>6,061</u> | <u>(477,959)</u> | <u>-</u> |
| Change in net assets | 251,034 | 155,235 | 406,269 | 104,183 |
| Total net assets at beginning of year | <u>10,068,005</u> | <u>498,049</u> | <u>10,566,054</u> | <u>(28,342)</u> |
| Total net assets at end of year | <u>\$ 10,319,039</u> | <u>\$ 653,284</u> | <u>\$ 10,972,323</u> | <u>\$ 75,841</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, 2011

| | Business-type Activities | | |
|---|--------------------------|-------------------------------|---------------------|
| | Utility | Emergency Medical Services | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 4,841,890 | \$ 360,671 | \$ 5,202,561 |
| Cash received from other funds | - | - | - |
| Cash paid to suppliers for goods and services | (2,475,038) | (151,925) | (2,626,963) |
| Cash paid to employees for services | (770,742) | (816,318) | (1,587,060) |
| Net cash provided (used) by operating activities | <u>1,596,110</u> | <u>(607,572)</u> | <u>988,538</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Noncapital contributions | - | 796,510 | 796,510 |
| Borrowing (repayments) to other funds | 56,245 | - | 56,245 |
| Transfers (out) to other funds | (484,020) | (7,270) | (491,290) |
| Net cash provided (used) by noncapital financing activities | <u>(427,775)</u> | <u>789,240</u> | <u>361,465</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets | (2,098,266) | (125,650) | (2,223,916) |
| Principal paid on debt | (517,093) | - | (517,093) |
| Interest paid | (405,924) | - | (405,924) |
| Net cash provided (used) by capital and related financing activities | <u>(3,021,283)</u> | <u>(125,650)</u> | <u>(3,146,933)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of investments | (450,000) | - | (450,000) |
| Proceeds from maturity of investments | 84,144 | - | 84,144 |
| Investment income | 7,496 | 207 | 7,703 |
| Net cash provided (used) by investing activities | <u>(358,360)</u> | <u>207</u> | <u>(358,153)</u> |
| Net increase (decrease) in cash and cash equivalents | (2,211,308) | 56,225 | (2,155,083) |
| Cash and cash equivalents at beginning of year | <u>4,065,862</u> | <u>6,311</u> | <u>4,072,173</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,854,554</u> | <u>\$ 62,536</u> | <u>\$ 1,917,090</u> |

| | |
|-------------------------|----------------|
| Governmental | |
| Activities | |
| <u>Internal Service</u> | |
| Fund | |
| \$ | - |
| | 1,014,361 |
| | (927,723) |
| | - |
| | <u>86,638</u> |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | 428 |
| | <u>428</u> |
| | 87,066 |
| | <u>51,630</u> |
| \$ | <u>138,696</u> |

CITY OF EL CAMPO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2011

| | <u>Business-type Activities</u> | | |
|---|---------------------------------|---------------------------------------|--------------------------|
| | <u>Utility</u> | <u>Emergency Medical Services</u> | <u>Total</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | \$ 1,136,565 | \$ (647,543) | \$ 489,022 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation and amortization | 630,250 | 55,877 | 686,127 |
| Changes in assets and liabilities | | | |
| (Increase) decrease in accounts receivable | (149,621) | (29,049) | (178,670) |
| (Increase) decrease in prepaid expenses | (28,527) | (4,030) | (32,557) |
| Increase (decrease) in accounts payable | (1,400) | (411) | (1,811) |
| Increase (decrease) in accrued expenses | 11,768 | 13,663 | 25,431 |
| Increase (decrease) in deposits | (4,571) | - | (4,571) |
| Increase (decrease) in claims payable | - | - | - |
| Increase (decrease) in compensated absences | 1,646 | 3,921 | 5,567 |
| Total adjustments | <u>459,545</u> | <u>39,971</u> | <u>499,516</u> |
| Net cash provided (used) by operating activities | <u>\$ 1,596,110</u> | <u>\$ (607,572)</u> | <u>\$ 988,538</u> |
| Reconciliation of cash and cash equivalents | | | |
| Unrestricted | | | |
| Cash and cash equivalents | \$ 1,560,292 | \$ 62,536 | \$ 1,622,828 |
| Restricted | | | |
| Cash and cash equivalents | <u>294,262</u> | <u>-</u> | <u>294,262</u> |
| Total | <u>\$ 1,854,554</u> | <u>\$ 62,536</u> | <u>\$ 1,917,090</u> |

Noncash capital and related financing activities

The Emergency Medical Services Fund received noncash contributions relating to capital asset additions of \$13,331 in fiscal year 2011.

Noncash investing activities

The Utility Fund had a decrease in fair value of investments of \$2,623 in fiscal year 2011.

The accompanying notes are an integral part of this statement.

Governmental
Activities
Internal Service
Fund

\$ 103,755

-

-

(18,164)

-

-

1,047

-

(17,117)

\$ 86,638

\$ 138,696

-

\$ 138,696

CITY OF EL CAMPO, TEXAS
STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2011

| | City Development Corporation of El Campo, Inc. | El Campo Volunteer Fire Department | Total |
|---|--|--|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 29,537 | \$ 250,733 | \$ 280,270 |
| Investments | 1,437,330 | - | 1,437,330 |
| Due from primary government | 86,816 | - | 86,816 |
| Notes receivable | 19,748 | - | 19,748 |
| Total current assets | <u>1,573,431</u> | <u>250,733</u> | <u>1,824,164</u> |
| Noncurrent assets | | | |
| Capital assets | | | |
| Land and improvements | 164,378 | 9,000 | 173,378 |
| Other capital assets (net) | 938,357 | 1,331,708 | 2,270,065 |
| Net capital assets | <u>1,102,735</u> | <u>1,340,708</u> | <u>2,443,443</u> |
| Notes receivable (net of current portion) | 11,768 | - | 11,768 |
| Total noncurrent assets | <u>1,114,503</u> | <u>1,340,708</u> | <u>2,455,211</u> |
| Total assets | <u>2,687,934</u> | <u>1,591,441</u> | <u>4,279,375</u> |
| LIABILITIES | | | |
| Accounts payable | 8,202 | 10,850 | 19,052 |
| Long-term liabilities | | | |
| Due within one year | 15,005 | 184,826 | 199,831 |
| Due in more than one year | 52,098 | 267,311 | 319,409 |
| Total liabilities | <u>75,305</u> | <u>462,987</u> | <u>538,292</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,035,632 | 888,571 | 1,924,203 |
| Restricted for: | | | |
| Other purposes | - | 10,786 | 10,786 |
| Unrestricted net assets | 1,576,997 | 229,097 | 1,806,094 |
| Total net assets | <u>\$ 2,612,629</u> | <u>\$ 1,128,454</u> | <u>\$ 3,741,083</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, 2011

| Function/Programs | Expenses | Program Revenues | | |
|--|-------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Component Units | | | | |
| City Development Corporation of El Campo, Inc. | \$ 320,060 | \$ 114,702 | \$ - | \$ - |
| El Campo Volunteer Fire Department | <u>244,008</u> | <u>128,645</u> | <u>178,426</u> | <u>16,667</u> |
| Total component units | <u>\$ 564,068</u> | <u>\$ 243,347</u> | <u>\$ 178,426</u> | <u>\$ 16,667</u> |

General revenues:
Taxes:
 Sales taxes
 Unrestricted investment earnings
 Gain on sale of capital assets
 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 |
|--|--|---------------------|
| \$ (205,358) | \$ - | \$ (205,358) |
| <u>-</u> | <u>79,730</u> | <u>79,730</u> |
| <u>(205,358)</u> | <u>79,730</u> | <u>(125,628)</u> |
| 480,839 | - | 480,839 |
| 12,165 | 2,484 | 14,649 |
| 165,430 | - | 165,430 |
| <u>-</u> | <u>11,048</u> | <u>11,048</u> |
| <u>658,434</u> | <u>13,532</u> | <u>671,966</u> |
| 453,076 | 93,262 | 546,338 |
| <u>2,159,553</u> | <u>1,035,192</u> | <u>3,194,745</u> |
| <u>\$ 2,612,629</u> | <u>\$ 1,128,454</u> | <u>\$ 3,741,083</u> |

INDEX

| <u>Note</u> | | <u>Page</u> |
|-------------|--|-------------|
| 1 | Summary of Significant Accounting Policies | 30 |
| 2 | Stewardship, Compliance, and Accountability | 36 |
| 3 | Deposits and Investments | 37 |
| 4 | Receivables | 38 |
| 5 | Capital Assets | 40 |
| 6 | Employees' Retirement Plan | 41 |
| 7 | Supplemental Death Benefit Plan | 43 |
| 8 | Texas Emergency Services Retirement System | 44 |
| 9 | Other Postemployment Benefits (OPEB) | 46 |
| 10 | Employee Health Insurance Fund | 47 |
| 11 | Risk Management | 48 |
| 12 | Long-Term Debt | 48 |
| 13 | Interfund Receivables, Payables, and Transfers | 51 |
| 14 | Related Party Transactions | 52 |
| 15 | Commitments and Contingencies | 52 |
| 16 | Fund Balances | 53 |
| 17 | Subsequent Event | 53 |
| 18 | City Development Corporation of El Campo, Inc. | 53 |
| 19 | El Campo Volunteer Fire Department | 58 |

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, 2011.

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. These resources have been received by the City and are deemed significant to the City's financial statements. The amounts reported for the ECVFD in the financial statements are as of December 31, 2010, 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.

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 and reported in another fund.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

The Capital Project Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The City has two Capital Project Funds. 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.

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.

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. Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed, or assigned, are reported as committed or assigned fund balance at year end. There are no outstanding encumbrances at September 30, 2011.

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, 2011. 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.

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.

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

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution or by other formal action. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments can be made by the City Council of any amount and by the City Manager or his/her designee in an amount not to exceed \$500,000.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

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 2010-2011.

| <u>Fund Name - Department</u> | <u>Budget</u> | <u>Actual</u> | <u>Negative Variance</u> |
|-----------------------------------|---------------|---------------|------------------------------|
| General Fund | | | |
| City administration | \$ 1,166,655 | \$ 1,168,740 | \$ (2,085) |
| Streets | 1,187,070 | 1,193,288 | (6,218) |
| Administration/engineering | 216,760 | 218,114 | (1,354) |
| Parks and recreation | 338,565 | 341,228 | (2,663) |

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

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2011, 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 | \$ 3,658,924 | 30.00 |
| L.O.G.I.C. Pool | 250,000 | 48.00 |
| U.S. Government Securities | <u>2,307,394</u> | 65.18 |
| Total | <u>\$ 6,216,318</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 L.O.G.I.C. and 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 L.O.G.I.C. and MBIA Investment Pools. These pools operate in full compliance with the Public Funds Investment Act. The L.O.G.I.C. and MBIA Investment Pools (which represent approximately 63% of the portfolio) are rated AAAM by Standard & Poor's. The remaining 37% of the City's portfolio has a AA+ rating issued by Standard & Poor's.

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, 2011, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Notes 18 and 19 for discussions relative to the investments of the City's component units.

NOTE 4: RECEIVABLES

Receivables at September 30, 2011, 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 | \$ - | \$ 617,293 | \$ 934,259 | \$ 498,973 | \$ 2,050,525 |
| Ad valorem taxes | 320,748 | - | - | 40,592 | 361,340 |
| Franchise taxes | 86,504 | - | - | - | 86,504 |
| Fines | 1,438,822 | - | - | - | 1,438,822 |
| Interest | <u>3,347</u> | <u>2,676</u> | <u>-</u> | <u>-</u> | <u>6,023</u> |
| Total gross receivables | 1,849,421 | 619,969 | 934,259 | 539,565 | 3,943,214 |
| Less: Allowances | <u>1,345,513</u> | <u>-</u> | <u>560,555</u> | <u>432,152</u> | <u>2,338,220</u> |
| Total net receivables | <u>\$ 503,908</u> | <u>\$ 619,969</u> | <u>\$ 373,704</u> | <u>\$ 107,413</u> | <u>\$ 1,604,994</u> |

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 | \$ 270,175 | \$ - | \$ 270,175 |
| Fines | 143,882 | - | 143,882 |
| Nonmajor Funds | | | |
| Ad valorem taxes | 34,215 | - | 34,215 |
| Other | 47,308 | - | 47,308 |
| | <u>\$ 495,580</u> | <u>\$ -</u> | <u>\$ 495,580</u> |

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st 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 31st. 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 1st 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 \$0.52797 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.47533 and \$0.05264, respectively. The resulting adjusted total tax levy was \$2,799,518 on the total adjusted taxable valuation of \$460,617,298 for the 2010 tax year.

NOTE 5: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2011, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|---------------------|----------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 491,945 | \$ - | \$ - | \$ 491,945 |
| Total capital assets not being depreciated | <u>491,945</u> | <u>-</u> | <u>-</u> | <u>491,945</u> |
| Capital assets, being depreciated | | | | |
| Machinery and equipment | 4,152,265 | 204,494 | 123,825 | 4,232,934 |
| Buildings | 8,341,955 | - | - | 8,341,955 |
| Infrastructure | <u>21,645,392</u> | <u>52,649</u> | <u>-</u> | <u>21,698,041</u> |
| Total capital assets being depreciated | <u>34,139,612</u> | <u>257,143</u> | <u>123,825</u> | <u>34,272,930</u> |
| Less accumulated depreciation for | | | | |
| Machinery and equipment | 2,498,452 | 304,300 | 111,400 | 2,691,352 |
| Buildings | 3,166,497 | 199,041 | - | 3,365,538 |
| Infrastructure | <u>13,727,650</u> | <u>515,706</u> | <u>-</u> | <u>14,243,356</u> |
| Total accumulated depreciation | <u>19,392,599</u> | <u>1,019,047</u> | <u>111,400</u> | <u>20,300,246</u> |
| Total capital assets being depreciated, net | <u>14,747,013</u> | <u>(761,904)</u> | <u>12,425</u> | <u>13,972,684</u> |
| Governmental activities capital assets, net | <u>\$ 15,238,958</u> | <u>\$ (761,904)</u> | <u>\$ 12,425</u> | <u>\$ 14,464,629</u> |
| Business-type activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 16,021 | \$ 14,477 | \$ - | \$ 30,498 |
| Construction in progress | <u>2,827,528</u> | <u>16,948</u> | <u>2,827,528</u> | <u>16,948</u> |
| Total capital assets not being depreciated | <u>2,843,549</u> | <u>31,425</u> | <u>2,827,528</u> | <u>47,446</u> |
| Capital assets, being depreciated | | | | |
| Machinery and equipment | 2,304,648 | 182,082 | - | 2,486,730 |
| Buildings and improvements | 2,115,709 | - | - | 2,115,709 |
| Water works system | 10,871,496 | 2,408,337 | - | 13,279,833 |
| Sewer system | <u>7,777,044</u> | <u>2,408,337</u> | <u>-</u> | <u>10,185,381</u> |
| Total capital assets being depreciated | <u>23,068,897</u> | <u>4,998,756</u> | <u>-</u> | <u>28,067,653</u> |
| Less accumulated depreciation for | | | | |
| Machinery and equipment | 1,842,084 | 105,731 | - | 1,947,815 |
| Buildings and improvements | 1,358,086 | 52,452 | - | 1,410,538 |
| Water works system | 4,125,717 | 344,647 | - | 4,470,364 |
| Sewer system | <u>3,718,103</u> | <u>183,297</u> | <u>-</u> | <u>3,901,400</u> |
| Total accumulated depreciation | <u>11,043,990</u> | <u>686,127</u> | <u>-</u> | <u>11,730,117</u> |
| Total capital assets being depreciated, net | <u>12,024,907</u> | <u>4,312,629</u> | <u>-</u> | <u>16,337,536</u> |
| Business-type activities capital assets, net | <u>\$ 14,868,456</u> | <u>\$ 4,344,054</u> | <u>\$ 2,827,528</u> | <u>\$ 16,384,982</u> |

NOTE 5: CAPITAL ASSETS - (Continued)

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

Governmental activities

| | |
|--|---------------------|
| General government | \$ 123,893 |
| Public safety | 230,189 |
| Public works | 606,325 |
| Parks and recreation | <u>58,640</u> |
| Total depreciation expense - governmental activities | <u>\$ 1,019,047</u> |

Business-type activities

| | |
|---|-------------------|
| Utilities | \$ 630,250 |
| Emergency medical services | <u>55,877</u> |
| Total depreciation expense - business-type activities | <u>\$ 686,127</u> |

NOTE 6: EMPLOYEES' RETIREMENT PLANPlan 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. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | <u>Plan Year 2010</u> | <u>Plan Year 2011</u> |
|--|-----------------------------|-----------------------------|
| Employee deposit rate | 5.0% | 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) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% repeating transfers | 100% repeating transfers |
| Annuity increase (to retirees) | 70% of CPI repeating | 70% of CPI repeating |

Contributions

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

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 |
| 2011 | \$ 518,229 | 100% | \$ - |
| 2010 | 538,716 | 100% | - |
| 2009 | 503,237 | 100% | - |

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

| | Actuarial Valuation Information | | | |
|---|---------------------------------|------------------------------------|---------------------------|---------------------------|
| | 12/31/10 Restructured | 12/31/10 Prior to Restructuring | 12/31/09 | 12/31/08 |
| Actuarial cost method | projected unit credit | projected unit credit | projected unit credit | projected unit credit |
| Amortization method | level percent of payroll | level percent of payroll | level percent of payroll | level percent of payroll |
| GASB 25 equivalent single amortization period | 27.1 years; closed period | 27.0 years; closed period | 28.1 years; closed period | 29.0 years; closed period |
| Amortization period for new gains/losses | 30 years | 30 years | 30 years | 30 years |
| Asset valuation method | 10-year smoothed market | 10-year smoothed market | 10-year smoothed market | amortized cost |
| Investment rate of return * | 7.0% | 7.5% | 7.5% | 7.5% |
| Projected salary increases * | varies by age and service | varies by age and service | varies by age and service | varies by age and service |
| *Includes Inflation at Cost of living adjustments | 3.0% | 3.0% | 3.0% | 3.0% |
| | 2.1% | 2.1% | 2.1% | 2.1% |

Funded Status and Funding Progress

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

NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**Funded Status and Funding Progress - (Continued)**

The funded status as of December 31, 2010, under the two separate actuarial valuations is presented as follows:

| Schedule of Funding Progress | | | | | | |
|------------------------------|---------------------------|-----------------------------------|---------------------|--------------|------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued 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) |
| 12/31/10 ² | \$ 16,369,313 | \$ 18,848,698 | \$ 2,479,385 | 86.85% | \$ 4,426,088 | 56.02% |
| 12/31/10 ¹ | 10,650,472 | 15,005,547 | 4,355,075 | 70.98% | 4,426,088 | 98.40% |

¹ Actuarial valuation performed under the original fund structure

² Actuarial valuation performed under the new fund structure

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

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

NOTE 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 1st of any year to be effective the following January 1st.

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 2011, 2010, and 2009 were \$3,098, \$3,071, and \$3,753, respectively, which equaled the required contributions each year.

NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Plan Description

The Fire Fighters' Pension Commissioner (FFPC) 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. The Office of the FFPC issues a publicly available annual financial report that includes financial statements and required supplementary information (RSI). This report may be obtained by writing to FFPC, 920 Colorado Street, 11th Floor, Austin, Texas 78701 in addition, the report is available on FFPC's website at www.ffpc.state.tx.us. At August 31, 2010, there were 199 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 | 2,167 |
| Terminated participants entitled to benefits but not yet receiving them | 2,106 |
| Active participants (vested and nonvested) | <u>4,371</u> |
| | <u>8,644</u> |

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th 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.

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, 65th 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.

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

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.

| Three-Year Trend Information - State-wide | | | |
|---|-------------------------------|-------------------------|------------------------|
| Fiscal Year Ending August 31 | Annual Required Contributions | Actual Contributions | Percentage Contributed |
| 2010 | \$ 2,875,103 ³ | \$ 2,875,103 | 100% |
| 2009 | 2,698,271 ³ | 2,698,271 | 100% |
| 2008 | 3,160,764 ² | 11,239,339 ¹ | 356% |

¹ Includes a state contribution of \$8,800,000.

² Based on the August 31, 2006, actuarial valuation.

³ Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2011 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

| Three-Year Trend Information - City of El Campo, Texas | | | |
|--|-------------------------------------|------------------------|----------------|
| Year Ended September 30 | Annual Required Contributions (ARC) | Percentage Contributed | Net Obligation |
| 2011 | \$ 39,584 | 100% | \$ - |
| 2010 | 32,892 | 100% | - |
| 2009 | 47,500 | 100% | - |

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

In addition to providing pension benefits, the City provides its retirees with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan") administered by Entrust, Inc.. A separate audited financial report is not issued on the plan. The plan provides medical benefits to eligible retired City employees and their beneficiaries. A City employee whom retires under a disability retirement are immediately eligible for retiree health care benefits. In order for a City employee to be eligible for this benefit, he or she needs 20 or more years of service. The benefit ceases when the retired employee becomes eligible for Medicare and the retired employee's spouse may continue coverage until he/she becomes Medicare eligible. Spousal benefit ceases upon the death of the retiree.

Funding Policy

Retirees pay 100% of the monthly premium for health coverage. As of October 1, 2010, the retiree premiums are as follows: Plan A - "Employee Only" - \$496.32 and "Employee and Spouse" - \$1,168.74 and Plan B - "Employee Only" - \$441.47 and "Employee and Spouse" - \$1,037.07.

The City is under no obligation, statutory or otherwise, to pay any portion of the cost of postemployment benefits to any retirees. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget process.

Annual OPEB Expense

For 2011, the City's annual OPEB expense of \$15,214 was equal to the annual required contribution (ARC). The City's annual OPEB expense, the percent of annual OPEB expense contributed to the plan, and the net OPEB obligation for 2011 and 2010 are as follows:

| Year End September 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|--------------------------|---------------------|--|------------------------|
| 2011 | \$ 15,214 | 0.00% | \$ 30,428 |
| 2010 | 15,214 | 0.00% | 15,214 |

Funded Status and Funding Progress

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/(c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|-------------------------------------|---|
| 12/31/2009 | \$ - | \$ 168,339 | \$ 168,339 | 0.00% | \$ 4,386,471 | 3.84% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

| | <u>Actuarial Valuation Information</u> |
|------------------------------|--|
| | <u>12/31/09</u> |
| Actuarial cost method | projected unit credit |
| Amortization method | level percent of payroll |
| Amortization period in years | 30 - closed |
| Asset valuation method | fair value |
| Healthcare trend rate * | 9.00% |
| Projected salary increases * | 3.00% |
| Investment rate of return * | 4.50% |

*Includes an inflation adjustment of 4.50%.

NOTE 10: 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, 2011 the fund had estimated liabilities for outstanding claims of \$62,855. The fund incurred a net income for the year of \$104,183 compared to a net income of \$65,638 in the prior year.

Changes in the balance of claims payable during fiscal year 2011 and 2010 are as follows:

| | <u>9/30/11</u> | <u>9/30/10</u> |
|---|------------------|--------------------|
| Unpaid claims, beginning of fiscal year | \$ 61,808 | \$ 79,783 |
| Incurred claims (including IBNR) | 909,277 | 993,936 |
| Claim payments | <u>(908,230)</u> | <u>(1,011,911)</u> |
| Unpaid claims, end of fiscal year | <u>\$ 62,855</u> | <u>\$ 61,808</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.

In fiscal year 2012, the City has entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees.

NOTE 11: 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 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 12: LONG-TERM DEBT**A. Changes In Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2011, was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|--------------------------------|
| Governmental activities | | | | | |
| Bonds and certificates payable | | | | | |
| Certificates of obligation | \$ 2,878,808 | \$ - | \$ 150,930 | \$ 2,727,878 | \$ 162,474 |
| General obligation bonds | 45,126 | - | 21,942 | 23,184 | 23,184 |
| Total bonds and certificates payable | <u>2,923,934</u> | <u>-</u> | <u>172,872</u> | <u>2,751,062</u> | <u>185,658</u> |
| Capital leases payable | <u>153,406</u> | <u>-</u> | <u>105,943</u> | <u>47,463</u> | <u>47,463</u> |
| Compensated absences | <u>275,340</u> | <u>174,119</u> | <u>182,073</u> | <u>267,386</u> | <u>155,667</u> |
| Total governmental activity long-term liabilities | <u>\$ 3,352,680</u> | <u>\$ 174,119</u> | <u>\$ 460,888</u> | <u>\$ 3,065,911</u> | <u>\$ 388,788</u> |
| Business-type activities | | | | | |
| Bonds and certificates payable | | | | | |
| Certificates of obligation | \$ 7,226,192 | \$ - | \$ 164,070 | \$ 7,062,122 | \$ 172,526 |
| General obligation bonds | 499,874 | - | 243,058 | 256,816 | 256,816 |
| Total bonds and certificates payable | <u>7,726,066</u> | <u>-</u> | <u>407,128</u> | <u>7,318,938</u> | <u>429,342</u> |
| Capital leases payable | <u>1,299,040</u> | <u>-</u> | <u>109,965</u> | <u>1,189,075</u> | <u>114,714</u> |
| Compensated absences | <u>94,712</u> | <u>75,759</u> | <u>70,192</u> | <u>100,279</u> | <u>56,332</u> |
| Total business-type activity long-term liabilities | <u>\$ 9,119,818</u> | <u>\$ 75,759</u> | <u>\$ 587,285</u> | <u>\$ 8,608,292</u> | <u>\$ 600,388</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, 2011, \$300,000 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 18 and 19 for discussions relative to the long-term debt of the City's component units.

NOTE 12: LONG-TERM DEBT - (Continued)

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 |

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

| <u>Year</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> |
|-------------|--------------------------------|-----------------|---------------------------------|-----------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2012 | \$ 23,184 | \$ 551 | \$ 256,816 | \$ 6,099 | \$ 286,650 |
| | <u>\$ 23,184</u> | <u>\$ 551</u> | <u>\$ 256,816</u> | <u>\$ 6,099</u> | <u>\$ 286,650</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:

| | <u>Term</u> | <u>Interest Rates</u> | <u>Original Amount</u> |
|-------------|-------------|-----------------------|------------------------|
| 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> |

NOTE 12: LONG-TERM DEBT - (Continued)

C. Combination Tax and Revenue Certificates of Obligation - (Continued)

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

| Year | Governmental Activities | | Business-type Activities | | Total |
|-----------|-------------------------|-------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 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 | 149,925 | 87,009 | 345,075 | 259,245 | 841,254 |
| 2017-2021 | 882,895 | 317,247 | 1,977,105 | 1,037,248 | 4,214,495 |
| 2022-2026 | 874,675 | 109,708 | 2,175,325 | 560,557 | 3,720,265 |
| 2027-2030 | 125,000 | 2,625 | 1,460,000 | 115,616 | 1,703,241 |
| | <u>\$ 2,727,878</u> | <u>\$ 955,042</u> | <u>\$ 7,062,122</u> | <u>\$ 3,179,355</u> | <u>\$ 13,924,397</u> |

D. Capital Leases

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%. \$ 16,056

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%. 31,407

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%. 1,189,075

\$ 1,236,538

The present value of the capital leases after deduction of imputed interest is \$1,236,538.

| Year | Governmental Activities | | Business-type Activities | | Total |
|-----------|-------------------------|---------------|--------------------------|-------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 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 | - | - | 135,849 | 27,588 | 163,437 |
| 2017-2020 | - | - | 563,785 | 49,104 | 612,889 |
| | <u>\$ 47,463</u> | <u>\$ 927</u> | <u>\$ 1,189,075</u> | <u>\$ 240,999</u> | <u>\$ 1,478,464</u> |

NOTE 13: 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, 2011, were as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|-------------------|
| General | Utility | \$ 104,916 |
| | Nonmajor Governmental | |
| | Hotel/Motel Tax | 14,794 |
| | Police Seizure | 5,393 |
| Utility | General | <u>95,558</u> |
| | | <u>\$ 220,661</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>General</u> | <u>Total</u> |
| Nonmajor Governmental | \$ 53,102 | \$ 53,102 |
| Utility | 484,020 | 484,020 |
| Emergency Medical Services | <u>7,270</u> | <u>7,270</u> |
| | <u>\$ 544,392</u> | <u>\$ 544,392</u> |

NOTE 14: RELATED PARTY TRANSACTIONS

At September 30, 2011, 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 | \$ 86,816 |

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, 2011, the amount outstanding of \$67,103 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, 2011, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 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>\$ 67,103</u> | <u>\$ 7,762</u> | <u>\$ 74,865</u> |

NOTE 15: 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 collectability of any related receivable at September 30, 2011, 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, 2011, the City had outstanding contractual commitments with contractors for various City projects. These projects included the 2007 annexation project and the Olivia Lift Station remodel. The total commitments were \$366,718 as of year-end. The commitments are being funded by bond proceeds.

NOTE 16: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2011:

| | Governmental Fund Balances | | | | Total |
|----------------------------------|----------------------------|-------------------|-----------------|---------------------|---------------------|
| | Nonspendable | Restricted | Committed | Unassigned | |
| General | | | | | |
| Deferred expenditures | \$ 65,249 | \$ - | \$ - | \$ - | \$ 65,249 |
| Inventory | 21,928 | - | - | - | 21,928 |
| Unassigned | - | - | - | 3,774,325 | 3,774,325 |
| Nonmajor Governmental | | | | | |
| Noncurrent notes receivable | 52,098 | - | - | - | 52,098 |
| Retirement of long-term debt | - | 259,416 | - | - | 259,416 |
| Municipal court | - | 21,203 | - | - | 21,203 |
| State and federal grant programs | - | 457 | - | - | 457 |
| Public safety | - | 99,564 | - | - | 99,564 |
| Various capital projects | - | 430,584 | - | - | 430,584 |
| Street paving | - | - | 9,670 | - | 9,670 |
| | <u>\$ 139,275</u> | <u>\$ 811,224</u> | <u>\$ 9,670</u> | <u>\$ 3,774,325</u> | <u>\$ 4,734,494</u> |

NOTE 17: SUBSEQUENT EVENT

In January 2012, the City issued General Obligation Refunding Bonds, Series 2012 in the amount of \$2,890,000. The proceeds from the bonds will be used to advance refund \$365,000 of the City's Combination Tax and Revenue Certificates of Obligation, Series 1995 and \$2,765,000 of the City's Tax and Revenue Certificates of Obligation, Series 2004 and to pay the costs of issuance of the bonds.

NOTE 18: 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.

NOTE 18: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

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. CDC has complied with all legal budget requirements for the year ended September 30, 2011.

D. Deposits and Investments

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

| <u>Investment Type</u> | <u>Amortized Cost</u> | <u>Weighted Average Maturity (Months)</u> |
|-------------------------|-----------------------|---|
| Certificates of Deposit | \$ 1,437,330 | 57.5 |

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 to six months or less. CDC's certificates of deposits have original maturities that are 48 months and 60 months. The CDC has obtained a waiver from its depository for any early withdrawal penalty, therefore the CDC's certificates of deposit are not exposed to interest rate risk.

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, 2011, CDC had deposits in two local financial institutions and the deposits were FDIC insured at each institution up to \$250,000. At September 30, 2011, \$1,069,876 of the CDC's bank balance of \$1,469,876 was properly collateralized per the CDC investment policy by securities pledged to CDC by the financial institution.

It is managements' recent understanding that the CDC and any other 4A and 4B economic development entity is not considered a "political subdivision" as defined by Section 330.15 of the FDIC's regulation. Therefore, CDC's bank deposits may not be insured above \$250,000 even though they are secured by a pledged collateral agreement.

NOTE 18: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

D. Deposits and Investments - (Continued)

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, 2011, was \$86,816. The City collects the sales tax from the State of Texas and then pays CDC's portion monthly when collected.

F. Notes 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.

On March 15, 2011, CDC made an unsecured loan to the El Campo Country Club, Inc. in the amount of \$33,870, with principal and interest (2.00%) due in equal monthly installments of \$1,440.84 on the first day of each month through March 1, 2013. If the note is paid in full prior to March 1, 2012, the interest rate will be 0.00%.

The total annual payments for the note receivable outstanding balance at September 30, 2011, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2012 | \$ 19,748 | \$ 609 | \$ 20,357 |
| 2013 | 11,514 | 758 | 12,272 |
| 2014 | 254 | 2 | 256 |
| | <u>\$ 31,516</u> | <u>\$ 1,369</u> | <u>\$ 32,885</u> |

NOTE 18: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

G. Capital Assets

CDC's capital asset activity for the year ended September 30, 2011, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| 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 | 2,033,251 | - | 800,000 | 1,233,251 |
| Office equipment | 16,840 | - | - | 16,840 |
| Total capital assets being depreciated | <u>2,050,091</u> | <u>-</u> | <u>800,000</u> | <u>1,250,091</u> |
| Less accumulated depreciation for | | | | |
| Buildings | 582,260 | 44,300 | 331,667 | 294,893 |
| Office equipment | 16,841 | - | - | 16,841 |
| Total accumulated depreciation | <u>599,101</u> | <u>44,300</u> | <u>331,667</u> | <u>311,734</u> |
| Total capital assets being depreciated, net | <u>1,450,990</u> | <u>(44,300)</u> | <u>468,333</u> | <u>938,357</u> |
| Governmental activities capital assets, net | <u>\$ 1,615,368</u> | <u>\$ (44,300)</u> | <u>\$ 468,333</u> | <u>\$ 1,102,735</u> |

H. Long-term Debt

During the year ended September 30, 2011, the following changes occurred in CDC's long-term debt:

| | <u>Notes Payable City of El Campo, Texas</u> |
|----------------------------|--|
| Balance, beginning of year | \$ 81,393 |
| New issues | - |
| Principal retirements | <u>(14,290)</u> |
| Balance, end of year | <u>\$ 67,103</u> |
| Due within one year | <u>\$ 15,005</u> |

NOTE 18: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

H. Long-term Debt - (Continued)

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%.

Summary of Long-term Debt Requirements

The annual requirements to amortize all CDC's long-term debt outstanding at September 30, 2011, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 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>\$ 67,103</u> | <u>\$ 7,762</u> | <u>\$ 74,865</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, 2011:

| <u>Year Ending September 30</u> | |
|-------------------------------------|-----------------|
| 2012 | \$ <u>6,000</u> |
| | 6,000 |
| Thereafter | <u>-</u> |
| | <u>\$ 6,000</u> |

NOTE 18: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

J. Fund Balances

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This 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. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The CDC did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2011. This Statement did not have an impact on the CDC's functions, financial position or results of operations.

In accordance with CDC's "Contingency and Reserve Fund Policy", at September 30, 2011 CDC had \$22,491 set aside for contingencies and \$7,133 for payments related to leased property. These amounts, which total \$29,624, are included in the General Fund's unassigned fund balance at September 30, 2011.

NOTE 19: 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.

NOTE 19: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)

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, 2010.

The ECVFD's cash at December 31, 2010, is as follows:

| | |
|--------------------------|-------------------|
| Cash and demand deposits | <u>\$ 250,733</u> |
| Total deposits | <u>\$ 250,733</u> |

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> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities | | | | |
| 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 | 1,631,358 | 159,071 | - | 1,790,429 |
| Total capital assets being depreciated | <u>1,631,358</u> | <u>159,071</u> | <u>-</u> | <u>1,790,429</u> |
| Less accumulated depreciation for | | | | |
| Training facility | 367,246 | 91,475 | - | 458,721 |
| Total accumulated depreciation | <u>367,246</u> | <u>91,475</u> | <u>-</u> | <u>458,721</u> |
| Total capital assets being depreciated, net | <u>1,264,112</u> | <u>67,596</u> | <u>-</u> | <u>1,331,708</u> |
| Governmental activities capital assets, net | <u>\$ 1,273,112</u> | <u>\$ 67,596</u> | <u>\$ -</u> | <u>\$ 1,340,708</u> |

NOTE 19: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)

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 3.25% payable yearly with the final unpaid principal and interest due April 12, 2025.

During the year ended December 31, 2010, 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 | \$ 473,483 | \$ - | \$ 106,172 | \$ 367,311 | \$ 15,152 |

The following is a summary of payments on the construction note:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|-------------------|-------------------|
| 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 | 21,261 | 11,343 | 32,604 |
| 2016-2020 | 120,024 | 42,992 | 163,016 |
| 2021-2025 | 151,956 | 16,494 | 168,450 |
| | <u>\$ 367,311</u> | <u>\$ 121,740</u> | <u>\$ 489,051</u> |

In 2010, the ECVFD borrowed \$84,826 for the purchase of a fire truck. The loan was for 4 years at 5.2%. The loan was paid off in 2011.

Required Supplementary Information