

**CITY OF MANVEL, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**September 30, 2011**



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**CITY OF MANVEL, TEXAS**  
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## Independent Auditors' Report

To the Honorable Mayor and  
Members of City Council of  
City of Manvel, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Manvel, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The Management's Discussion and Analysis pages 3 through 10 and the budgetary comparison information and the supplementary pension information on pages 46 through 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of City Council of  
City of Manvel, Texas

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. These statements are the responsibility of management and are 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.

A handwritten signature in black ink that reads "Null Laism, P.C." The signature is written in a cursive, flowing style.

Houston, Texas  
March 26, 2012

# **CITY OF MANVEL, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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

### **Overview of the Financial Statements**

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

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

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

The statement of activities presents information showing how the 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 (e.g. 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, library, and parks and recreation. The business-type activity of the City is composed of water and sewer operations.

The government-wide financial statements include the City (known as the primary government) and a legally separate component unit. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13 through 15 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Manvel, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

## **CITY OF MANVEL, TEXAS**

### ***MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as 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.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general, debt service, and capital project funds, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

**Proprietary Funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 20 through 22 of this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 45 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Manvel's progress in funding its obligation to provide pension benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 48 through 53 of this report.

**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6.7 million. Of this amount, \$4.4 million was invested in capital assets (net of related debt), approximately \$2.3 million was unrestricted and the balance was restricted for a combination of debt service, court related projects, tourism, and amounts due to other governmental entities.

Below is a condensed schedule of net assets as of September 30, 2011:

**City of Manvel, Texas**

*Net Assets (in thousands)*

*September 30, 2011 and 2010*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current assets	\$ 3,947	\$ 3,558	\$ 40	\$ 22	\$ 3,987	\$ 3,580
Capital assets	1,993	1,940	5,434	5,321	7,427	7,261
<b>Total Assets</b>	<b>5,940</b>	<b>5,498</b>	<b>5,474</b>	<b>5,343</b>	<b>11,414</b>	<b>10,841</b>
Current liabilities	1,747	1,291	28	32	1,775	1,323
Long-term liabilities	2,893	3,006			2,893	3,006
<b>Total Liabilities</b>	<b>4,640</b>	<b>4,297</b>	<b>28</b>	<b>32</b>	<b>4,668</b>	<b>4,329</b>
Net assets:						
Invested in capital assets, net of related debt	(997)	(1,054)	5,434	5,321	4,437	4,267
Restricted	220	225			220	225
Unrestricted	2,077	2,030	12	(10)	2,089	2,020
<b>Total Net Assets</b>	<b>\$ 1,300</b>	<b>\$ 1,201</b>	<b>\$ 5,446</b>	<b>\$ 5,311</b>	<b>\$ 6,746</b>	<b>\$ 6,512</b>

The government's net assets from governmental activities increased by \$99,000 during the current fiscal year. The increase is due mainly to the capitalization of construction costs for roads and the renovation of the police department facility. The business-type activities increased \$135,000 for the current fiscal year because of construction costs to expand the water distribution system. Historically, the City operates the business-type activities at a loss, since the customer base is not large enough to fund the operations of the systems. Therefore, total net assets increased by \$234,000 during the current fiscal year.

**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The following table summarizes the changes in net assets for the City for the year ended September 30, 2011:

**City of Manvel, Texas**

*Changes in Net Assets (in thousands)*

*For the Fiscal Years Ended September 30, 2011 and 2010*

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 767	\$ 725	\$ 180	\$ 173	\$ 947	\$ 898
Capital grants	37	66	182		219	66
Operating grants	6	1			6	1
General revenues:						
Property taxes	2,091	2,047			2,091	2,047
Franchise taxes & hotel taxes	388	377			388	377
Sales taxes	658	595			658	595
Other	30	60		1	30	61
<b>Total Revenues</b>	<b>3,977</b>	<b>3,871</b>	<b>362</b>	<b>174</b>	<b>4,339</b>	<b>4,045</b>
<b>Expenses:</b>						
General government	1,119	1,007			1,119	1,007
Public safety	912	862			912	862
Public works	1,147	884			1,147	884
Library, parks, and recreation	54	55			54	55
Economic development	326	176			326	176
Interest on long-term debt	160	167			160	167
Water & Sewer			387	450	387	450
<b>Total Expenses</b>	<b>3,718</b>	<b>3,151</b>	<b>387</b>	<b>450</b>	<b>4,105</b>	<b>3,601</b>
Transfer in (out)	(160)	(369)	160	369		
Change in net assets	99	351	135	93	234	444
Beginning net assets	1,201	850	5,311	5,218	6,512	6,068
<b>Ending Net Assets</b>	<b>\$ 1,300</b>	<b>\$ 1,201</b>	<b>\$ 5,446</b>	<b>\$ 5,311</b>	<b>\$ 6,746</b>	<b>\$ 6,512</b>

**Governmental activities.** Governmental activities increased the City's net assets by \$99,000 during the current fiscal year. The increase is due mainly to the capitalization of construction costs for roads and the renovation of the police department facility.

**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

**City of Manvel, Texas**

*Expenses, Program Revenues, and Net Cost of Services -*

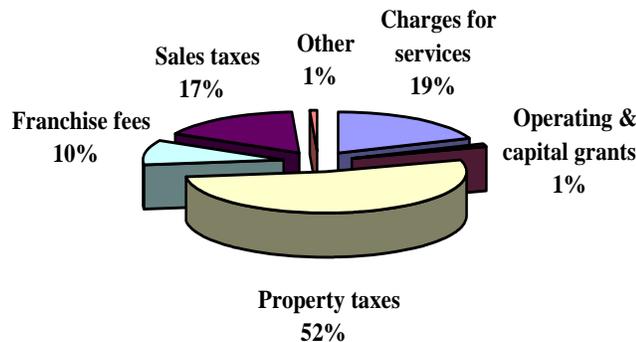
*Governmental Activities (in thousands)*

*For the Fiscal Years Ended September 30, 2011 and 2010*

	<b>Expenses</b>		<b>Program Revenues</b>		<b>Net (Cost) of Services</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Program:						
General government	\$ 1,119	\$ 1,007	\$ 648	\$ 585	\$ (471)	\$ (422)
Public safety	912	862	157	207	(755)	(655)
Public works	1,147	884	4		(1,143)	(884)
Library, parks, and recreation	54	55			(54)	(55)
Economic development	326	176			(326)	(176)
Interest on long-term debt	160	167			(160)	(167)
	<u>\$ 3,718</u>	<u>\$ 3,151</u>	<u>\$ 809</u>	<u>\$ 792</u>	<u>\$ (2,909)</u>	<u>\$ (2,359)</u>

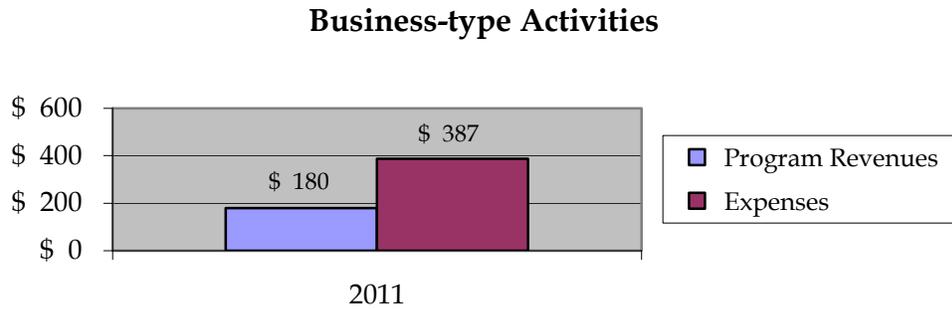
As indicated above, governmental program expenses were supported by program revenues including permits and fines and forfeitures. The balance of the program expenses were supported by general revenues.

Revenue sources for governmental activities were distributed as follows:



**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Business-type Activities.** The net assets of the City's business-type activities increased by \$135,000. A comparison between expenses relating to water and sewer operations and program revenues (charges for services and capital contributions) follows.



Program revenue sources for business-type activities consisted of charges for services. To date, the operations of the water and sewer operations have not reached a breakeven point in sales to match program expenses. Revenues generated from governmental activities contributed \$342,190 to the business-type activities in the form of a transfer.

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

As noted earlier, the City used 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2.3 million.

The General fund is the chief operating fund of the City of Manvel. At the end of the current fiscal year, the fund balance of the general fund was \$1.7 million. This balance represents a decrease of approximately \$6 thousand from the prior year.

The Debt Service fund had a total fund balance of \$96 thousand, all of which is reserved for the payment of debt service. The net decrease in fund balance from the prior year of approximately \$37 thousand was primarily due to using excess funds to make debt service payments..

The Capital Projects fund balance of \$345 thousand represents unspent debt proceeds from the issuance of bonds.

**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Proprietary Funds.** The City of Manvel's proprietary funds provide the same type of information found in the government-wide financial statements.

The unrestricted net assets of the Water and Sewer Enterprise fund at the end of the year was approximately \$12 thousand dollars. The net asset balance was \$5.4 million. The net assets balance includes the completion of capital assets, which were transferred from the capital projects fund.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounted to \$7.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, water and sewer plant and service lines, machinery and equipment, and construction in progress. Capital assets increased slightly during the year, primarily due to the renovations to the police department facility and for capital road improvements.

Additional information on the City's capital assets can be found in Note 6 to the basic financial statements of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had total long-term debt outstanding of \$3.0 million. All of the long-term debt is payable from general governmental revenues.

**City of Manvel, Texas**  
*Outstanding Debt (in thousands)*  
*September 30, 2011 and 2010*

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Capital Lease Obligations	\$ -	\$ 10
Certificates of Obligation	2,825	2,875
General Obligation Bonds	165	235
Compensated Absences	77	44
	<u>\$ 3,067</u>	<u>\$ 3,164</u>

The City's total debt decreased by approximately \$97 thousand during the fiscal year primarily due to the planned retirement of outstanding debt. Additional information on the City's long-term debt can be found in Note 7 to the basic financial statements of this report.

**CITY OF MANVEL, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**General Fund Budgetary Highlights**

The final amended budgeted revenues for the general fund increased approximately \$93 thousand from the original budget. The final amended budgeted expenditures for the general fund increased by approximately \$256 thousand. Budgeted revenues included increases for capital grants and contributions not included in the original budget. The budget amendments for expenditures included an approval of surplus funds to use for road repairs, maintenance and special road projects. In addition, City Council approved the renovation of the old City Hall to be used as the new facility for the Police Department. Total actual expenditures were approximately \$38 thousand less than budgeted. The decrease was primarily due to public safety expenditures being less than budgeted due to unfilled positions in that department.

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

The fiscal year 2012 general fund budgeted revenues increased by approximately \$152 thousand over the fiscal year 2011 budget, while the general fund budgeted expenditures increased by approximately \$216 thousand. The 2012 budgeted revenues reflect an increase of \$150 thousand due to the taxpayers approval to use an additional ¼ percent sales tax revenue towards road and maintenance purposes. The expenditures increased primarily due to the required expenditures related to the City Manager position and other professional fees.

**City of Manvel, Texas**  
*Budget Totals (in thousands)*  
*September 30, 2012 and 2011*

	<u>Fiscal Year</u> <u>2012</u>	<u>Fiscal Year</u> <u>2011</u>	<u>Increase</u> <u>(Decrease)</u>
General Fund			
Revenues	\$ 3,593	\$ 3,441	4%
Expenditures	3,856	3,640	6%

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF MANVEL, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2011

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Manvel Economic Development Corporation</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 3,481,167	\$ 11,904	\$ 3,493,071	\$ 1,384,864
Receivables, net of allowance for uncollectibles	371,461	21,120	392,581	62,223
Due from other governments	73,233	4,091	77,324	
Internal balances	(3,619)	3,619		
Deferred issuance costs	25,133		25,133	
Capital assets not being depreciated	774,576	175,000	949,576	
Capital assets net of accumulated depreciation	1,218,376	5,258,603	6,476,979	
<b>Total Assets</b>	<b>5,940,327</b>	<b>5,474,337</b>	<b>11,414,664</b>	<b>1,447,087</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	623,004	28,236	651,240	31,000
Due to developer	932,548		932,548	
Accrued interest payable	18,222		18,222	
Noncurrent liabilities:				
Due within one year	173,457		173,457	
Due in more than one year	2,893,152		2,893,152	
<b>Total Liabilities</b>	<b>4,640,383</b>	<b>28,236</b>	<b>4,668,619</b>	<b>31,000</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	(997,048)	5,433,603	4,436,555	
Restricted for:				
Debt service	95,680		95,680	
Development	35,025		35,025	1,416,087
Public safety/municipal court/tourism	89,746		89,746	
Unrestricted	2,076,541	12,498	2,089,039	
<b>Total Net Assets</b>	<b>\$ 1,299,944</b>	<b>\$ 5,446,101</b>	<b>\$ 6,746,045</b>	<b>\$ 1,416,087</b>

See Notes to Financial Statements.

**CITY OF MANVEL, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For The Year Ended September 30, 2011*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grant and Contributions
<b>Primary government</b>				
Governmental Activities				
General Government	\$ 1,119,434	\$ 648,251	\$	\$
Public Safety	911,577	118,568	1,177	36,833
Public Works	1,146,907		4,729	
Library, parks and recreation	54,257			
Economic development	325,741			
Interest on long-term debt	160,183			
<b>Total governmental activities</b>	<u>3,718,100</u>	<u>766,819</u>	<u>5,906</u>	<u>36,833</u>
<b>Business-type activities</b>				
Water and sewer	386,567	179,617		182,213
<b>Total business-type activities</b>	<u>386,567</u>	<u>179,617</u>		<u>182,213</u>
<b>Total primary government</b>	<u>\$ 4,104,667</u>	<u>\$ 946,436</u>	<u>\$ 5,906</u>	<u>\$ 219,046</u>
<b>Component Unit</b>				
Manvel Economic Development Corporation	<u>\$ 47,276</u>			

**General revenues:**

Taxes:

    Property taxes

    Franchise & hotel occupancy taxes

    Sales taxes

Unrestricted investment earnings

Miscellaneous

Transfers

**Total general revenues**

Change in net assets

Net assets - beginning

**Net assets - ending**

*See Notes to Financial Statements.*

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Manvel Economic Development Corporation</b>
\$ (471,183)	\$	\$ (471,183)	
(754,999)		(754,999)	
(1,142,178)		(1,142,178)	
(54,257)		(54,257)	
(325,741)		(325,741)	
(160,183)		(160,183)	
<u>(2,908,542)</u>		<u>(2,908,542)</u>	
	(24,737)	(24,737)	
	<u>(24,737)</u>	<u>(24,737)</u>	
<u>\$ (2,908,542)</u>	<u>\$ (24,737)</u>	<u>\$ (2,933,279)</u>	
			<u>\$ (47,276)</u>
\$ 2,090,820	\$	\$ 2,090,820	
388,116		388,116	
658,015		658,015	329,007
6,498	170	6,668	1,619
23,343		23,343	
(159,977)	159,977		
<u>3,006,815</u>	<u>160,147</u>	<u>3,166,962</u>	<u>330,626</u>
98,274	135,410	233,684	283,350
<u>1,201,670</u>	<u>5,310,691</u>	<u>6,512,361</u>	<u>1,132,737</u>
<u>\$ 1,299,944</u>	<u>\$ 5,446,101</u>	<u>\$ 6,746,045</u>	<u>\$ 1,416,087</u>

**CITY OF MANVEL, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
*September 30, 2011*

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Current assets:					
Cash and temporary investments	\$ 2,820,827	\$ 95,680	\$ 459,035	\$ 105,625	\$ 3,481,167
Due from other funds	114,065			18,821	132,886
Due from other governments	73,233				73,233
Accounts receivable, less allowance for doubtful accounts	347,972	15,623		7,866	371,461
<b>Total Assets</b>	<u>\$ 3,356,097</u>	<u>\$ 111,303</u>	<u>\$ 459,035</u>	<u>\$ 132,312</u>	<u>\$ 4,058,747</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 471,084	\$	\$	\$ 7,171	\$ 478,255
Due to other funds	22,440		113,695	370	136,505
Due to developer	932,548				932,548
Other liabilities	144,749				144,749
Deferred revenue	97,803	15,623			113,426
<b>Total Liabilities</b>	<u>1,668,624</u>	<u>15,623</u>	<u>113,695</u>	<u>7,541</u>	<u>1,805,483</u>
<b>FUND BALANCE</b>					
Restricted		95,680	345,340	124,771	565,791
Committed - road maintenance	212,527				212,527
Assigned - technology enhancements	4,179				4,179
Unassigned	1,470,767				1,470,767
<b>Total Fund Balances</b>	<u>1,687,473</u>	<u>95,680</u>	<u>345,340</u>	<u>124,771</u>	<u>2,253,264</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,356,097</u>	<u>\$ 111,303</u>	<u>\$ 459,035</u>	<u>\$ 132,312</u>	<u>\$ 4,058,747</u>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**

*September 30, 2011*

Total fund balance, governmental funds	\$ 2,253,264
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	1,992,952
Certain other long-term receivables are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	113,426
Deferred issuance costs are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	25,133
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.	
Certificates of obligation	(2,825,000)
General obligation bonds	(165,000)
Compensated absences payable	(76,609)
Accrued interest payable	(18,222)
	<hr/>
<b>Net Assets of Governmental Activities</b>	<b>\$ 1,299,944</b>
	<hr/> <hr/>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

*For The Year Ended September 30, 2011*

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>					
Property taxes	\$ 1,855,359	\$ 237,229	\$	\$	\$ 2,092,588
Sales and use taxes	658,015				658,015
Franchise taxes	354,997				354,997
Licenses and permits	526,244				526,244
Fines and forfeitures	101,828			5,930	107,758
Earnings on investments	4,831	315	962	390	6,498
Hotel taxes				33,119	33,119
Intergovernmental	53,319				53,319
Other	40,580			105,000	145,580
<b>Total Revenues</b>	<b>3,595,173</b>	<b>237,544</b>	<b>962</b>	<b>144,439</b>	<b>3,978,118</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General government	960,560			111,878	1,072,438
Public safety	816,640				816,640
Public works	1,190,940				1,190,940
Library, parks and recreation	54,257				54,257
Economic development	325,741				325,741
<b>Debt service:</b>					
Principal		120,000			120,000
Interest and fees		154,844			154,844
<b>Capital Outlay</b>	<b>119,708</b>		<b>9,496</b>		<b>129,204</b>
<b>Total Expenditures</b>	<b>3,467,846</b>	<b>274,844</b>	<b>9,496</b>	<b>111,878</b>	<b>3,864,064</b>
<b>Revenues Over (Under) Expenditures</b>	<b>127,327</b>	<b>(37,300)</b>	<b>(8,534)</b>	<b>32,561</b>	<b>114,054</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers out	(133,746)		(26,231)		(159,977)
<b>Total Other Financing Sources (Uses)</b>	<b>(133,746)</b>		<b>(26,231)</b>		<b>(159,977)</b>
<b>Changes in Fund Balance</b>	<b>(6,419)</b>	<b>(37,300)</b>	<b>(34,765)</b>	<b>32,561</b>	<b>(45,923)</b>
<b>Fund Balances - Beginning of Year</b>	<b>1,693,892</b>	<b>132,980</b>	<b>380,105</b>	<b>92,210</b>	<b>2,299,187</b>
<b>Fund Balances - End of Year</b>	<b>\$ 1,687,473</b>	<b>\$ 95,680</b>	<b>\$ 345,340</b>	<b>\$ 124,771</b>	<b>\$ 2,253,264</b>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2011*

Net change in fund balances - total government funds:	\$ (45,923)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay of \$192,887 exceeded depreciation of \$139,957 in the current period.	52,930
Property Tax Revenues in the statement of activities that do not provide current financial resources are deferred as revenues in the fund statements.	(1,768)
Governmental funds report repayment of long-term debt as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments made on long-term debt during the current year.	129,951
The issuance of long-term debt provides current financial resources to governmental funds. In contrast, the Statement of Activities reports the amount as long-term debt instead of proceeds.	(5,026)
Some expenses 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.	
Increase in accrued compensated absences	(32,234)
Decrease in accrued interest payable	344
	<hr/>
<b>Change in net assets of governmental activities</b>	<b>\$ 98,274</b>
	<hr/> <hr/>

See Notes to Financial Statements.

**CITY OF MANVEL, TEXAS**  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUND**  
*September 30, 2011*

**ASSETS**

**Current assets:**

Cash and temporary investments	\$ 11,904
Accounts receivable, less allowance for doubtful accounts	21,120
Due from other funds	3,619
Due from other governments	<u>4,091</u>
<b>Total Current Assets</b>	<u><u>40,734</u></u>

**Capital Assets:**

Land	175,000
Buildings and equipment, net of accumulated depreciation	<u>5,258,603</u>
<b>Total Capital Assets</b>	<u><u>5,433,603</u></u>
<b>Total Assets</b>	<u><u>5,474,337</u></u>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

**Current Liabilities:**

Accounts payable	11,906
Refundable deposits	<u>16,330</u>
<b>Total Liabilities</b>	<u><u>28,236</u></u>

**Net Assets:**

Invested in capital assets, net of related debt	5,433,603
Unrestricted	<u>12,498</u>
<b>Total Net Assets</b>	<u><u>\$ 5,446,101</u></u>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**FUND NET ASSETS**  
**ENTERPRISE FUND**  
*For The Year Ended September 30, 2011*

<b>OPERATING REVENUES</b>		
Charges for services		\$ 179,617
	<b>Operating Revenues</b>	<u>179,617</u>
<b>OPERATING EXPENSES</b>		
Personnel services		79,344
Professional services		375
Services		41,165
Supplies		43,331
Repair and maintenance		85,370
Insurance		3,102
Depreciation		<u>133,880</u>
	<b>Operating Expenses</b>	<u>386,567</u>
	<b>Operating Income (Loss)</b>	(206,950)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Earning on investments		<u>170</u>
	<b>Total Non-Operating Revenues (Expenses)</b>	<u>170</u>
<b>OPERATING TRANSFERS IN (OUT) AND CAPITAL CONTRIBUTIONS</b>		
Transfers in		<u>342,190</u>
	<b>Total Operating Transfers</b>	<u>342,190</u>
	<b>Increase in Net Assets</b>	135,410
	<b>Net Assets at Beginning of Year</b>	<u>5,310,691</u>
	<b>Net Assets at End of Year</b>	<u>\$ 5,446,101</u>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**  
**COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES**  
**ENTERPRISE FUND**  
*For the Year ended September 30, 2011*

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users		\$ 170,639
Payments to suppliers		(258,260)
	<b>Net cash provided (used) by operating activities</b>	<u>(87,621)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer from other funds		342,190
	<b>Net cash provided (used) by non-capital financing activities</b>	<u>342,190</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Construction or purchase of assets		(246,685)
	<b>Net cash provided (used) by capital and related financing activities</b>	<u>(246,685)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments		170
	<b>Net cash provided by investing activities</b>	<u>170</u>
	<b>Net increase in cash and cash equivalents</b>	8,054
Cash and cash equivalents, beginning of year		<u>3,850</u>
<b>Cash and cash equivalents, end of year</b>		<u><u>\$ 11,904</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)		\$ (206,950)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		133,880
Changes in current assets and liabilities:		
(Increase) Decrease in accounts receivable		(6,984)
(Increase) in due from other funds		(3,619)
Increase (Decrease) in accounts payable and accrued expenses		(5,573)
Increase (Decrease) in customer deposits		1,625
	<b>Net cash flows from operating activities</b>	<u><u>\$ (87,621)</u></u>

*See Notes to Financial Statements.*

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION**

The City of Manvel (the “City”) is a political subdivision of the State of Texas and is considered a primary government. The voters elected on May 14, 2011 to adopt a Home Rule Charter for the City of Manvel, and the election was canvassed on May 23, 2011. The municipal government provided by the Charter shall be known as a “Council-Manager form of Government”. Pursuant to the provisions of, and subject only to the limitations imposed by, the state constitution, state laws and the charter, all powers of the city shall be vested in an elective council, hereinafter referred to as the “city council” or the “council”, which consists of a mayor and six (6) council members. The council, by majority vote of the entire council, shall appoint a city manager, who shall be the chief administrative officer of the city. The City of Manvel appointed a full-time city manager on January 16, 2012.

The City provides the following services: public safety, public works, parks and recreation, water and sewer, and general administrative services.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

**Manvel Economic Development Corporation (the “Corporation”)**

The mission of the Corporation is to promote economic development within the City and surrounding areas. In 1998, the City's voters authorized a half percent increase in the City's sales tax rate to provide funding for the Corporation. At an election on May 14, 2011, the voters approved a decrease in the sales tax from a half percent to a quarter percent to provide funding for the Corporation. This decrease is effective October 1, 2011. The Board of Directors of the Corporation is appointed and may be terminated by City Council. The Board is comprised of seven directors elected to serve two-year terms. The Corporation is required to prepare an annual budget that is approved by City Council. As a discretely presented component unit, the Corporation is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. Separate audited financial statements for the Corporation have not been prepared.

**Manvel Cultural Education Facilities Finance Corporation (the “MCEFFC”)**

The MCEFFC was organized on September 23, 2002 pursuant to the Texas Cultural Education Facilities Finance Corporation Act. The members of the board are appointed by City Council. The MCEFFC does not pass an annual budget and has a September 30 year end. The MCEFFC issues bonds to finance or refinance educational facilities. These bonds are limited obligations of the

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. Reporting Entity (continued)**

issuer, payable solely from revenues received by the issuer pursuant to a loan agreement by and between the issuer and the borrower, as further secured by a deed of trust for the borrower on certain real property of the borrower securing payments under such loan agreements. The related loan agreements and bonds payable have not been recorded in the financial statements of the City of Manvel. The only activity reported in the financial statements of the City are fees relating to issuance of the debt obligations. These fees are reported in the City's General Fund.

**Manvel Education Facilities Corporation (the "MEFC")**

The MEFC was organized on June 12, 2001 pursuant to the Higher Education Authority Act. The members of the board are appointed by City Council. The MEFC does not pass an annual budget and has a September 30 year end. The MEFC issues bonds to finance or refinance educational facilities. These bonds are limited obligations of the issuer, payable solely from revenues received by the issuer pursuant to a loan agreement by and between the issuer and the borrower, as further secured by a deed of trust for the borrower on certain real property of the borrower securing payments under such loan agreements. The related loan agreements and bonds payable have not been recorded in the financial statements of the City of Manvel. The only activity reported in the financial statements of the City are fees relating to issuance of the debt obligations. These fees are reported in the City's General Fund.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

**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 about the City as a whole. These statements include all nonfiduciary activities of the primary government 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or

**CITY OF MANVEL, TEXAS**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Government-Wide and Fund Financial Statements (continued)**

segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular 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 and proprietary funds. 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 recognized 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 if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally 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.

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred revenues at year-end. Property taxes collected within 60 days subsequent to September 30, 2011 have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2011 have been recorded as receivables and revenue. Licenses and permits and fines and forfeitures are not susceptible to accrual since they are not measurable until received. Interest is recorded when earned.

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund include local property taxes, sales and use taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, finance, public safety, public works, public health, parks and recreation, and municipal court.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The *Debt Service Fund* is used to account for the accumulation of resources for the retirement of general long-term debt and related costs. The primary source of revenue for the Debt Service Fund is local property taxes.

The *Capital Projects Fund* is used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the acquisition and construction of major capital facilities.

The City has one major proprietary fund:

The *Water and Wastewater Enterprise Fund* is used to account for the operations that provide water and wastewater utility services to the public. These services are financed and operated in a manner similar to private business enterprises where the intent of the Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. Proprietary fund types follow generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (the GASB), and all Financial Accounting Standards boards standards issued before November 30, 1989. After this date, the City accounts for its proprietary funds as presented by the GASB.

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 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 the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operational expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.

**CITY OF MANVEL, TEXAS**

*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**D. Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash-on-hand, demand deposits, and balances in two privately managed public funds investment pools (TexPool and TexSTAR).

**E. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer fund have not been recognized as of the end of the year as they are considered immaterial.

**F. Due to and from other funds**

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

**G. Capital assets**

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$500. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received. Major road improvements of \$50,000 or more are also recorded as capital assets.

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. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Capital assets (continued)**

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings, improvements and roads	10 - 60 years
Machinery and equipment	5 - 7 years
Water and sewer system	55 years

**H. Compensated absences**

Employees earn vacation based on years of service with the City. Vacation time must be taken in the year in which it is earned. Unused vacation time can be rolled forward to the next year with supervisor approval. Sick leave is accrued at the rate of twelve work days each year of employment and may accumulate until a maximum of thirty-six days have accumulated. In accordance with GAAP, the liability for accumulated compensated absences as of September 30, 2011, has been recorded as a liability in the Government-Wide Statement of Net Assets.

**I. General property taxes**

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. The Brazoria County Central Appraisal District (“CAD”) establishes appraised values. Taxes are levied by the Council based on the appraised values received from the CAD. The Brazoria County Tax Assessor/Collector performs billing and collection of tax levies.

**J. Debt service**

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for debt service on the general obligation debt is provided by the debt service tax together with interest earned in the Debt Service Fund.

**K. Fund equity**

Prior to GASB No. 54, fund balances in the fund financial statement were reported as reserved or unreserved. In accordance with GASB No. 54, fund balances will now be classified as follow:

***Nonspendable Fund Balance*** - This category represents amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

**CITY OF MANVEL, TEXAS**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Restricted Fund Balance** - This category represents amounts constrained to specific purposes by law through constitutional provisions or enabling legislation or by contract whereby constraints have been placed on the use of funds externally by creditors, grantors, contributors, or laws or regulations of other governments.

**Committed Fund Balance** - This category represents amounts constrained to specific purposes by a government itself through ordinance or resolution.

**Assigned Fund Balance** – This category represents amount a government *intends* to use for specific purposes, but are neither restricted nor committed.

**Unassigned Fund Balance** – This category represents amounts that are available for any purpose.

The City adopted a fund balance policy on September 26, 2011. The policy established a minimum fund balance equal to three months of budgeted expenditures for the General Fund and the Enterprise Fund including any interfund transfers, plus an amount equal to the annual principal and interest payments on any outstanding long-term debt. Committed Fund Balance currently represents amounts designated by City Council for road maintenance purposes. Assigned Fund Balance currently represents amounts intended to be used for technology enhancements.

**M. Revenues and expenditures/expenses**

In the fund financial statements revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred.

Revenues and expenses in the Government-Wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

**N. Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS)**

**Authorization for Deposits and Investments**

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

**Authorization for Deposits and Investments – (continued)**

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent. The City’s agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. At fiscal year end, the bank balance of the City’s deposits was covered by federal depository insurance up to \$250,000 and the balance was covered by collateral pledged in the name of the City and held in a third party depository.

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City’s investment policy. The City’s investment policy authorizes the same investments as State law and fully collateralized certificates of deposit and repurchase agreements, banker’s acceptances, commercial paper, no-load money market funds, and investment pools. The City’s investment policy does not allow investments in obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

**Deposit and Investment Amounts**

The City’s cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions and in two privately managed public funds investment pool accounts (TexPool and TexSTAR).

The following schedule shows the City’s recorded cash and investments at year end:

	<b>Primary</b>	
	<b>Government</b>	<b>MEDC</b>
	<hr/>	<hr/>
Cash and deposits	\$ 322,427	\$ 11,164
Balances in public funds investment pools		
TexStar	160,511	
TexPool	3,010,133	1,373,700
Totals	<hr/> <hr/> \$ 3,493,071	<hr/> <hr/> \$ 1,384,864

**CITY OF MANVEL, TEXAS**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

**NOTE 3 – CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS)**  
**(continued)**

**Investment Risks**

*Interest Rate Risk*

At year end, the City's investments in TexPool and TexSTAR had a weighted average maturity of 48 days and 46 days respectively.

The City uses interest rate risk using the weighted average maturity method for the portfolio.

*Concentration of Credit Risk*

The City's investment policy does not restrict or specify levels of concentration or diversification within the City's portfolio.

**Local Government Investment Pools**

As of September 30, 2011, the City's investments included TexPool and TexSTAR Public Funds Investment Pools. The investment pool investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool.

The value of City portions in TexPool and TexSTAR are the same as the value of the shares. These external pooled funds operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external pooled funds use amortized cost rather than market value to report net assets to compute share price, such funds have daily liquidity. Although TexPool and TexSTAR have weighted average maturities greater than one, the City considers the holdings in these funds to have a one day weighted average maturity.

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied, however such amounts are deferred and not reported as revenues until collections are received. At year end, all property taxes receivable are classified as delinquent. Penalties and interest accrued at September 30 are also recognized as receivables.

Within these guidelines, the tax rate per \$100 of assessed valuation for the year ended September 30, 2011 was \$0.587863. The tax rate to finance general governmental services was set at \$0.521562, and the tax rate for debt service purposes was set at \$0.066301 per \$100 of assessed valuation.

Property taxes receivable as of September 30, 2011 includes penalty and interest on delinquent accounts and an estimated allowance for uncollectible as follows:

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Penalty and Interest</u>	<u>Less Allowance for Uncollectible Accounts</u>	<u>Net Property Taxes Receivable - Governmental Funds</u>
Prior	\$ 11,714	\$ 18,722	\$ (21,100)	\$ 9,336
2002	4,994	6,393	(6,300)	5,087
2003	4,377	5,077	(4,900)	4,554
2004	5,775	6,005	(5,600)	6,180
2005	6,051	5,567	(5,100)	6,518
2006	4,680	3,744	(3,300)	5,124
2007	8,436	5,736	(5,100)	9,072
2008	10,605	5,938	(5,300)	11,243
2009	10,952	4,819	(4,400)	11,371
2010	13,161	4,212	(4,200)	13,173
2011	33,056	6,612	(7,900)	31,768
	<u>\$ 113,801</u>	<u>\$ 72,825</u>	<u>\$ (73,200)</u>	<u>\$ 113,426</u>

**Deferred Revenues**

Delinquent property tax revenue of \$113,426 at September 30, 2011 has been deferred in the fund financial statements until collected. Delinquent tax collections during the first sixty days subsequent to September 30, 2011 have not been recorded as revenue as of September 30, 2011, as the amount is not considered material.

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 5 – RECEIVABLES**

Amounts recorded as receivables as of September 30, 2011 for the government’s individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Water and Wastewater</u>	<u>Discretely Presented Component Unit</u>
Receivables:					
Property taxes	\$ 160,603	\$ 26,023	\$	\$	\$
Franchise taxes	88,698				
Sales taxes	124,446				62,223
Other	37,025		7,866	28,120	
Gross receivables	410,772	26,023	7,866	28,120	62,223
Less: allowance for uncollectibles	(62,800)	(10,400)		(7,000)	
Net total receivables	<u>\$ 347,972</u>	<u>\$ 15,623</u>	<u>\$ 7,866</u>	<u>\$ 21,120</u>	<u>\$ 62,223</u>

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 6 – CAPITAL ASSETS**

A summary of activity for capital assets for the year ended September 30, 2011 follows:

	<u>Balance</u> <u>09/30/2010</u>	<u>Additions</u> <u>(Retirements)</u>	<u>Balance</u> <u>09/30/2011</u>
<b>Governmental activities:</b>			
Capital assets, not being depreciated:			
Land	\$ 738,034	\$	\$ 738,034
Construction in progress	66,721	(30,179)	36,542
Total capital assets not being depreciated	<u>804,755</u>	<u>(30,179)</u>	<u>774,576</u>
Capital assets being depreciated:			
Buildings, improvements and roads	993,409	181,136	1,174,545
Machinery and equipment	1,400,314	41,930	1,442,244
Total capital assets being depreciated	2,393,723	223,066	2,616,789
Less accumulated depreciation for:			
Building, improvements and roads	(166,800)	(55,916)	(222,716)
Machinery and equipment	(1,091,656)	(84,041)	(1,175,697)
Total accumulated depreciation	<u>(1,258,456)</u>	<u>(139,957)</u>	<u>(1,398,413)</u>
Total capital assets being depreciated, net	<u>1,135,267</u>	<u>83,109</u>	<u>1,218,376</u>
Governmental activities capital assets, net	<u>\$ 1,940,022</u>	<u>\$ 52,930</u>	<u>\$ 1,992,952</u>
<b>Business-type activities:</b>			
Capital assets, not being depreciated:			
Land	\$ 175,000	\$	\$ 175,000
Construction in progress			
Total capital assets not being depreciated	<u>175,000</u>		<u>175,000</u>
Capital assets being depreciated:			
Water/sewer system	5,757,336	241,178	5,998,514
Machinery and equipment	72,856	5,507	78,363
Total capital assets being depreciated	5,830,192	246,685	6,076,877
Less accumulated depreciation	<u>(684,394)</u>	<u>(133,880)</u>	<u>(818,274)</u>
Total capital assets being depreciated, net	<u>5,145,798</u>	<u>112,805</u>	<u>5,258,603</u>
Business-type activities capital assets, net	<u>\$ 5,320,798</u>	<u>\$ 112,805</u>	<u>\$ 5,433,603</u>

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 6 – CAPITAL ASSETS (continued)**

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

**DEPRECIATION BY FUNCTION**

**Governmental activities:**

General	\$ 24,713
Public safety	39,253
Public works	75,991
	<u>\$ 139,957</u>

**Business-type activities:**

Water and Sewer	<u>\$ 133,880</u>
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**NOTE 7 – LONG-TERM DEBT**

The City issues general obligation bonds and certificates of obligation to provide funds for acquisition and construction of major capital facilities. These debt instruments constitute direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on taxable property located within the City limits.

During the year ended September 30, 2011, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Capital leases	\$ 9,951	\$	\$ (9,951)	\$	\$
Certificates of obligation	2,875,000		(50,000)	2,825,000	55,000
less deferred issuance costs	(30,159)		5,026	(25,133)	-
General obligation bonds	235,000		(70,000)	165,000	80,000
Compensated absences payable	44,375	32,234		76,609	38,457
	<u>\$ 3,134,167</u>	<u>\$ 32,234</u>	<u>\$ (124,925)</u>	<u>\$ 3,041,476</u>	<u>\$ 173,457</u>

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 7 – LONG-TERM DEBT (continued)**

The following is a summary of the terms of obligations of certificates of obligation and general obligation bonds outstanding as of September 30, 2011:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
<b>General Obligation Bonds</b>			
General Obligation Refunding Bonds, Series 1998	\$ 810,000	6.50%	\$ 165,000
<b>Certificates of Obligation</b>			
Certificates of Obligation, Series 1998	340,000	6.50%	70,000
Certificates of Obligation, Series 2006 (Water)	2,000,000	5.32%	1,975,000
Certificates of Obligation, Series 2006 (Sewer)	845,000	3.71%	<u>780,000</u>
<b>Total Governmental Activities</b>			<u><u>\$ 2,990,000</u></u>

Annual debt service requirements to retire outstanding certificates of obligation are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 55,000	\$ 136,393
2013	55,000	133,448
2014	155,000	131,611
2015	165,000	125,045
2016	170,000	117,861
2017	180,000	110,268
2018	190,000	102,031
2019	195,000	93,180
2020	205,000	83,976
2021	215,000	74,081
2022	225,000	63,554
2023	240,000	52,381
2024	245,000	40,271
2025	260,000	27,731
2026	<u>270,000</u>	<u>14,215</u>
Total	<u><u>\$ 2,825,000</u></u>	<u><u>\$ 1,306,046</u></u>

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 7 – LONG-TERM DEBT (continued)**

Annual debt service requirements to retire outstanding general obligation bonds are as follows:

Year ending September 30	Governmental Activities	
	Principal	Interest
2012	\$ 80,000	\$ 8,125
2013	85,000	2,763
Total	<u>\$ 165,000</u>	<u>\$ 10,888</u>

**Conduit (No-Commitment Debt)**

The MCEFFC and MEFC issue bonds to finance or refinance educational facilities. These bonds are limited obligations of the issuer, payable solely from revenues received by the issuer pursuant to a loan agreement by and between the issuer and the borrower, as further secured by a deed of trust for the borrower on certain real property of the borrower securing payments under such loan agreements. The related loan agreements and bonds payable have not been recorded in the financial statements of the City of Manvel.

**NOTE 8 – INTERFUND TRANSACTIONS**

The following is a summary of interfund receivables as of September 30, 2011:

	Interfund	
	Receivable	Payable
General Fund	\$ 114,065	\$ 22,440
Capital Projects Fund		113,695
Non-Major Governmental Funds	18,821	370
Enterprise Fund	3,619	
Totals	<u>\$ 136,505</u>	<u>\$ 136,505</u>

During the year ended September 30, 2011, the City made transfers between funds for the following reasons:

	Transfer in	Transfers Out	Purpose
General Fund	\$ -	\$ 133,746	To fund operations and purchase capital assets
Enterprise Fund	159,977		To fund operations and purchase capital assets
Capital Projects Fund		26,231	Partial funding of water line extension
Totals	<u>\$ 159,977</u>	<u>\$ 159,977</u>	

## **CITY OF MANVEL, TEXAS**

### **NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

#### **NOTE 9 – EMPLOYMENT RETIREMENT SYSTEM**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 842 currently administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2010 valuations are contained in the 2010 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153, or from the TMRS' website at [www.TMRS.com](http://www.TMRS.com).

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a 100% of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date.

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit Rate: 5%

Matching Ratio (City to Employee): 1 to 1

A member is vested after: 5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the City (expressed as Age/Years of Service) are:

5 yrs/age 60, 25yrs/any age

Updated Service Credit: 0%

Annuity Increase (to retirees): 0% of CPI

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 9 – EMPLOYMENT RETIREMENT SYSTEM (continued)**

**Contributions**

Under the state law governing TMRS, the actuary annually determines the City contribution rate using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee’s retirement date, not at the time the employee’s contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan’s 25-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2009 valuation is effective for rates beginning January 2011).

**Annual Pension Cost**

The City’s annual pension cost was equal to the City’s required and actual contributions. Three-year trend information for the City’s TMRS plan follows:

Fiscal Year	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual required contributions	\$ 22,676	\$ 22,401	\$ 31,850
Actual contributions made	\$ 22,676	\$ 22,401	\$ 31,850
Percentage of Contributions made	100%	100%	100%
Net pension obligation	\$ 0	\$ 0	\$ 0

**CITY OF MANVEL, TEXAS**

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 9 – EMPLOYMENT RETIREMENT SYSTEM (continued)**

**Required Contribution Rates**

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:

<b>Valuation Date</b>	<b>12/31/2010 - Restructured</b>	<b>12/31/2010 - prior to restructuring</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Actuarial Cost Method</b>	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
<b>Amortization Method</b>	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
<b>GASB 25 Equivalent Single Amortization Period</b>	24.9 years; closed period	21.7 years; closed period	24.9 years; closed period	24 years; closed period
<b>Amortization Period for new Gains/Losses</b>	25 years	25 years	25 years	25 years
<b>Asset Valuation Method</b>	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market	Amortized Cost
<b>Actuarial Assumptions:</b>				
<b>Investment Rate of Return *</b>	7.00%	7.50%	7.50%	7.50%
<b>Projected Salary Increases *</b>	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
<b>* Includes Inflation at</b>	3.00%	3.00%	3.00%	3.00%
<b>Cost-of-Living Adjustments</b>	0.00%	0.00%	0.00%	0.00%

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 9 – EMPLOYMENT RETIREMENT SYSTEM (continued)**

**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).

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Funded Ratio</b>	<b>Unfunded AAL (UAAL)</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
12/31/2010 <sup>1</sup>	\$665,958	\$671,812	99.1%	\$5,854	\$961,508	0.6%
12/31/2010 <sup>2</sup>	\$761,911	\$688,685	110.6%	(\$73,226)	\$961,508	-7.6%

(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.

**CITY OF MANVEL, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

**NOTE 9 – EMPLOYMENT RETIREMENT SYSTEM (continued)**

**Supplemental Death Benefits Fund**

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

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 post-employment benefit,” or OPEB.

<b>Supplemental Death Benefits Offered to:</b>	<b>Plan Year 2010</b>	<b>Plan Year 2011</b>
Active employees	Yes	Yes
Retirees	Yes	Yes

**Contributions**

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 retiree term life insurance during employees’ entire careers.

The city’s contributions to the TMRS SDBF for the calendar years ended 2010, 2009 and 2008 were \$1,722; \$1,594; and \$2,266, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates:**

**(RETIREE - only portion of the rate)**

<b>Plan/Calendar Year</b>	<b>Annual Required Contribution (Rate)</b>	<b>Actual Contribution Made (Rate)</b>	<b>Percentage of ARC Contibuted</b>
2008	0.01%	0.01%	100.00%
2009	0.01%	0.01%	100.00%
2010	0.01%	0.01%	100.00%

**CITY OF MANVEL, TEXAS**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

**NOTE 10 – RISK MANAGEMENT**

**General Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage from the previous year.

**Worker's Compensation**

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivisions of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

**NOTE 11 – TEXAS WATER DEVELOPMENT BOARD**

In fiscal year 2005, the City applied to the Texas Water Development Board (the "Board") for financial assistance for the construction of Wastewater System improvements. The Board approved the application for financial assistance in the amount of \$845,000. The City sold Combination Tax and Revenue Certificates of Obligation, Series 2005 in the amount of \$845,000 for the wastewater improvements. The Board was the sole purchaser of the City's bonds.

**NOTE 12 – NEW RODEO 288**

The City entered into an Amended and Restated Development Agreement with New Rodeo 288, Ltd. (the "Developer"), and Brazoria County Municipal Utility District No. 29 (the "District") dated September 10, 2007. The City also entered into an Economic Development Agreement with New Rodeo 288, Ltd. dated September 10, 2007, and an Interlocal Agreement with Brazoria County Municipal Utility District No. 29 dated September 10, 2007. The Agreements empower the City to provide economic development incentives in accordance with Chapter 380, Texas Local Government Code.

On or before August 15, 2008, the City agreed to create the Economic Development Fund and to deposit into such fund annually during the term of the Agreement the calculated annual payment as provided by the terms of the agreements. The Agreement pursuant to Chapter 380 has a term of 25 years.

The City is required to make payments to the Economic Development Fund by August 15 each year. The first payment was made on August 15, 2008. As of August 15, 2011, the balance in the fund is \$932,548, which consists of payments from the City of \$929,657 and interest earnings of \$2,891.

**CITY OF MANVEL, TEXAS**  
*NOTES TO BASIC FINANCIAL STATEMENTS (Continued)*

**NOTE 13 – TAX INCREMENT REINVESTMENT ZONE**

**Tax Increment Reinvestment Zone No. 3 (the “TIRZ 3”)**

In accordance with the Tax Increment Financing Act (Chapter 311, Tax Code), the City of Manvel established Tax Increment Reinvestment Zone Number Three (“TIRZ 3”) on May 10, 2010. The TIRZ 3 consists of approximately 2,403.78 acres, which will be developed into the Seven Oaks/Meridiana Project. The TIRZ 3 will provide the financing and management tools needed to help stimulate the development of commercial and residential areas within the zone.

TIRZ 3 has a life of 40 years, and has committed to 50% of its sales tax and 100% of its property tax, less cost of service, for the duration, or until dissolved by the City. Brazoria County has committed 40.49% of its property tax beginning in 2015 (unless an earlier date is agreed to) for a period of 30 years from the first year payment.

Upon the recommendation of the TIRZ 3 Board, the City Council authorized the submission of an application for formation of the South Manvel Development Authority (“SMDA”).

**NOTE 13 – TAX INCREMENT REINVESTMENT ZONE (continued)**

**South Manvel Development Authority (the “SMDA”)**

The SMDA is organized for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of the area included in Tax Increment Reinvestment Zone Number Three, City of Manvel, Texas (the “Zone”), as such boundaries may be amended from time to time, and neighboring areas; and to promote, develop encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. The SMDA was created on February 14<sup>th</sup>, 2011, pursuant to the provisions of Subchapter D of Chapter 431, Texas Transportation Code, and Chapter 394, Texas Local Government Code.

All powers of the SMDA shall be vested in a Board consisting initially of five (5) persons. Additional persons may be added to the Board by the SMDA in accordance with the provisions of the Bylaws.

The SMDA has taken no action during the current year. Tax collections will begin in October, 2011.

**Financing Agreements**

The City has entered into a Shared Financing Agreement between the City of Manvel, Tax Increment Reinvestment Zone Number Three, South Manvel Development Authority, Brazoria Co. MUD No. 56, and Brazoria County MUD No. 57 dated December 29, 2010, to provide for the joint financing, design, construction, and operation of the TIRZ Plan Projects.

The City has entered into a Development Financing Agreement between the City of Manvel, Tax Increment Reinvestment Zone Number Three, and the South Manvel Development Authority dated December 29, 2010, whereby the City and the Zone delegate to the Authority certain functions relating to the implementation of the TIRZ Plan.

**CITY OF MANVEL, TEXAS**

***NOTES TO BASIC FINANCIAL STATEMENTS (Continued)***

Within six months of the effective date of the Development Financing Agreement, the Developer agrees to convey to the SMDA a parcel of land to be used as an interim park site until a permanent site can be determined. The SMDA or the City may erect recreational improvements on the site at their expense. On February 21, 2012, the SMDA approved a Special Warranty Deed conveying a parcel of land for such purposes.

**NOTE 14 – COURT TECHNOLOGY FUND**

The Court Technology Fund has a negative fund balance of \$309 due to the purchase of technical equipment and software used by the municipal court. In the past, revenues have not been sufficient to cover these costs.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF MANVEL, TEXAS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
Year Ended September 30, 2011

	<b>2011</b>			
	<b>Budgeted</b>		<b>Actual</b>	<b>Variance with Final Budget Positive/ (Negative)</b>
	<b>Original Adopted</b>	<b>Final Amended</b>		
<b>REVENUES</b>				
Property taxes	\$ 1,746,600	\$ 1,746,600	\$ 1,855,359	\$ 108,759
Sales and use taxes	585,000	585,000	658,015	73,015
Franchise taxes	360,000	360,000	354,997	(5,003)
Licenses and permits	477,150	477,150	526,244	49,094
Fines and forfeitures	132,700	132,700	101,828	(30,872)
Earnings on investments	7,500	7,500	4,831	(2,669)
Intergovernmental	14,260	54,563	53,319	(1,244)
Other	24,187	77,087	40,580	(36,507)
<b>Total Revenues</b>	<b>3,347,397</b>	<b>3,440,600</b>	<b>3,595,173</b>	<b>154,573</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	907,124	944,168	960,560	(16,392)
Public safety	926,675	863,754	816,640	47,114
Public works	1,036,563	1,199,947	1,190,940	9,007
Library, parks and recreation	55,820	57,270	54,257	3,013
Economic development	320,000	320,000	325,741	(5,741)
<b>Capital Outlay</b>	<b>4,215</b>	<b>120,917</b>	<b>119,708</b>	<b>1,209</b>
<b>Total Expenditures</b>	<b>3,250,397</b>	<b>3,506,056</b>	<b>3,467,846</b>	<b>38,210</b>
<b>Revenues Over (Under) Expenditures</b>	<b>97,000</b>	<b>(65,456)</b>	<b>127,327</b>	<b>192,783</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers (out)	(97,000)	(133,745)	(133,746)	(1)
<b>Total Other Financing Sources (Uses)</b>	<b>(97,000)</b>	<b>(133,745)</b>	<b>(133,746)</b>	<b>(1)</b>
<b>Changes in fund balance</b>		<b>(199,201)</b>	<b>(6,419)</b>	<b>192,782</b>
<b>Fund balance, beginning of year</b>	<b>1,693,892</b>	<b>1,693,892</b>	<b>1,693,892</b>	
<b>Fund Balance, End of Year</b>	<b>\$ 1,693,892</b>	<b>\$ 1,494,691</b>	<b>\$ 1,687,473</b>	<b>\$ 192,782</b>

**CITY OF MANVEL, TEXAS**  
***NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION***  
***Year ended September 30, 2011***

**A. Legal Compliance – Budgets**

Prior to August 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the City Manager. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall not increase the proposed expenditures to an amount greater than the total of estimated income, plus funds available from prior years. The Council approves the budget plan prior to September 30. One or more public hearings are conducted to obtain taxpayer comments. City Council members may transfer unencumbered appropriated balances, or portion thereof, from one department to another. During the year, Council members made six separate amendments to the original budget.

**CITY OF MANVEL, TEXAS**  
**SUPPLEMENTARY PENSION INFORMATION**  
*Year ended September 30, 2011*

**Texas Municipal Retirement System (unaudited)**

Schedule of Funding Progress

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Actuarial Value of Assets	\$ 761,911	\$ 606,559	\$ 526,680
Actuarial Accrued Liability (AAL)	688,685	612,936	535,857
Percentage funded	110.60%	98.96%	98.29%
Underfunded (Overfunded) AAL (UAAL)	(\$ 73,226)	\$ 6,377	\$ 9,177
Annual covered payroll	1,050,122	1,055,271	968,656
UAAL as a percentage of covered payroll	(7.6%)	1%	1%
Annual required contribution	\$ 22,676	\$ 22,401	\$ 31,850
Percentage of Contributions made	100%	100%	100%
Net Pension Obligation			

The City's annual covered payroll and annual pension costs are actuarially valued on a calendar year basis. Because the City makes all of the annually required contributions, no net pension obligation exists.

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**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF MANVEL, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
*September 30, 2011*

	<b>SPECIAL REVENUE</b>				<b>Total Non-major Governmental Funds</b>
	<b>Court Security</b>	<b>Court Technology</b>	<b>Hotel Taxes</b>	<b>Developer Fees</b>	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 7,542	\$ 61	\$ 57,128	\$ 40,894	\$ 105,625
Hotel taxes receivable			7,866		7,866
Due from other funds	10,019		7,500	1,302	18,821
<b>Total Assets</b>	<u>\$ 17,561</u>	<u>\$ 61</u>	<u>\$ 72,494</u>	<u>\$ 42,196</u>	<u>\$ 132,312</u>
<b>LIABILITIES</b>					
Accounts payable	\$	\$	\$	\$ 7,171	\$ 7,171
Due to other funds		370			370
<b>Total Liabilities</b>		<u>370</u>		<u>7,171</u>	<u>7,541</u>
<b>FUND BALANCE</b>					
Restricted for other projects	17,561	(309)	72,494	35,025	124,771
<b>Total Fund Balance</b>	<u>17,561</u>	<u>(309)</u>	<u>72,494</u>	<u>35,025</u>	<u>124,771</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 17,561</u>	<u>\$ 61</u>	<u>\$ 72,494</u>	<u>\$ 42,196</u>	<u>\$ 132,312</u>

**CITY OF MANVEL, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2011*

	<b>SPECIAL REVENUE</b>				<b>Total Non-major Governmental Funds</b>
	<b>Court Security</b>	<b>Court Technology</b>	<b>Hotel Taxes</b>	<b>Developer Fees</b>	
<b>REVENUES</b>					
Fines and forfeitures	\$ 2,547	\$ 3,383	\$	\$	\$ 5,930
Hotel taxes			33,119		33,119
Interest on investments	23	1	75	291	390
Other				105,000	105,000
<b>Total Revenues</b>	<u>2,570</u>	<u>3,384</u>	<u>33,194</u>	<u>105,291</u>	<u>144,439</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General government	3,263	2,541		106,074	111,878
<b>Total Expenditures</b>	<u>3,263</u>	<u>2,541</u>		<u>106,074</u>	<u>111,878</u>
<b>Changes in Fund Balance</b>	(693)	843	33,194	(783)	32,561
<b>Fund Balance, Beginning of Year</b>	<u>18,254</u>	<u>(1,152)</u>	<u>39,300</u>	<u>35,808</u>	<u>92,210</u>
<b>Fund Balance, End of Year</b>	<u>\$ 17,561</u>	<u>\$ (309)</u>	<u>\$ 72,494</u>	<u>\$ 35,025</u>	<u>\$ 124,771</u>

