

CITY OF CLUTE
CLUTE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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

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CITY OF CLUTE

Clute, Texas

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

February 25, 2011

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute, Texas 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the Texas Municipal Retirement System and the Texas Statewide Emergency Services Personnel Retirement Fund Schedules of Funding Progress – Last Three Years on pages 9 through 20 and 66 through 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Kennemer, Masters & Hurdford, LLC

CITY OF CLUTE, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2010

As management of the City of Clute, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Clute exceeded its liabilities at the close of the most recent fiscal year by \$ 34,275,936 (net assets). Of this amount, \$ 13,476,773 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net assets increased by \$ 883,760.
- As of the close of the current fiscal year, the City of Clute's governmental funds reported combined ending fund balances of \$ 11,797,695. 98.71% of this total amount, \$ 11,645,684 (unreserved fund balance) is available for use within the City's fund designation. Of this amount, \$ 8,978,202 has been designated for specific uses.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,158,452 or 82.69% of the total general fund expenditure. Of this amount, \$ 2,667,482 has not been designated for specific uses.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 21 through 23 of this report.

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

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

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

The City maintains six 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, Streets, Drainage and Sidewalks, Emergency Medical Service, and Economic Development Corporation; all of which are considered to be major funds. Data from the other two funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 74 through 75 of this report.

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

The basic proprietary fund financial statements can be found on pages 28 through 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 63 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 66 through 71 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are immediately following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 74 through 89 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Clute, assets exceeded liabilities by \$ 34,275,936 as of September 30, 2010.

A large portion of the City's net assets (58.34%) reflects its investments in capital assets (e.g., land, buildings, improvements, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets of \$ 804,252 (2.34%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 13,476,773 (39.32%) may be used to meet the government's ongoing obligations to citizens and creditors.

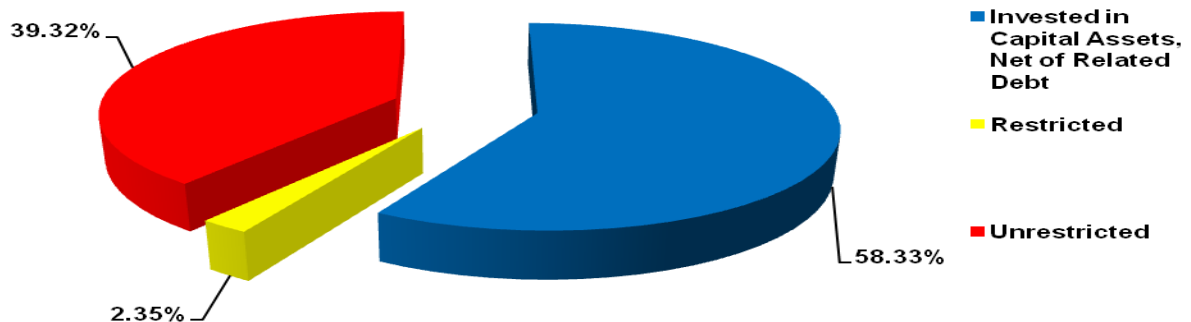
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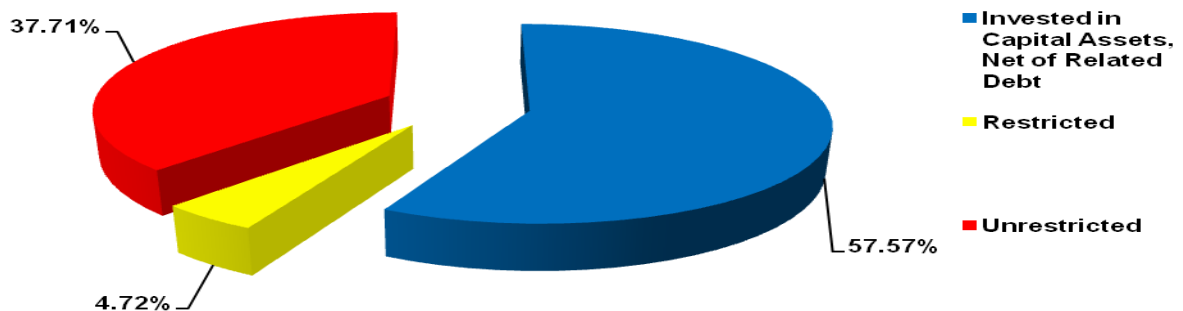
CITY OF CLUTE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 13,037,345	\$ 12,439,912	\$ 2,636,666	\$ 4,870,150	\$ 15,674,011	\$ 17,310,062
Capital assets	<u>14,968,728</u>	<u>15,449,748</u>	<u>11,615,118</u>	<u>10,971,755</u>	<u>26,583,846</u>	<u>26,421,503</u>
Total assets	<u>28,006,073</u>	<u>27,889,660</u>	<u>14,251,784</u>	<u>15,841,905</u>	<u>42,257,857</u>	<u>43,731,565</u>
Current and other liabilities	670,440	1,117,188	497,462	1,786,031	1,167,902	2,903,219
Long-term liabilities	<u>3,798,505</u>	<u>4,288,985</u>	<u>3,015,514</u>	<u>3,147,185</u>	<u>6,814,019</u>	<u>7,436,170</u>
Total liabilities	<u>4,468,945</u>	<u>5,406,173</u>	<u>3,512,976</u>	<u>4,933,216</u>	<u>7,981,921</u>	<u>10,339,389</u>
Net Assets:						
Invest in capital assets, net of related debt	11,264,793	11,251,480	8,730,118	7,971,755	19,994,911	19,223,235
Restricted	152,011	153,556	652,241	1,424,220	804,252	1,577,776
Unrestricted	<u>12,120,324</u>	<u>11,078,451</u>	<u>1,356,449</u>	<u>1,512,714</u>	<u>13,476,773</u>	<u>12,591,165</u>
Total net assets	<u>\$ 23,537,128</u>	<u>\$ 22,483,487</u>	<u>\$ 10,738,808</u>	<u>\$ 10,908,689</u>	<u>\$ 34,275,936</u>	<u>\$ 33,392,176</u>

2010 Net Asset Percentage



2009 Net Asset Percentage



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Management's Discussion and Analysis For the Year Ended September 30, 2010

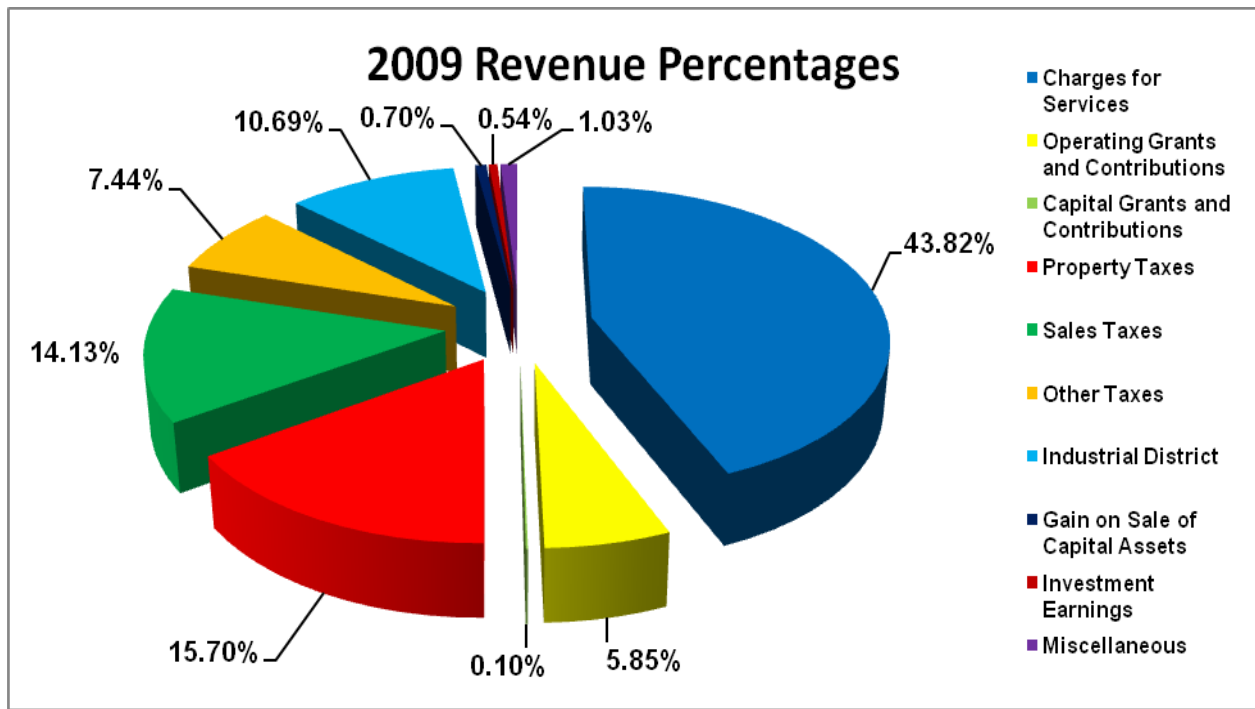
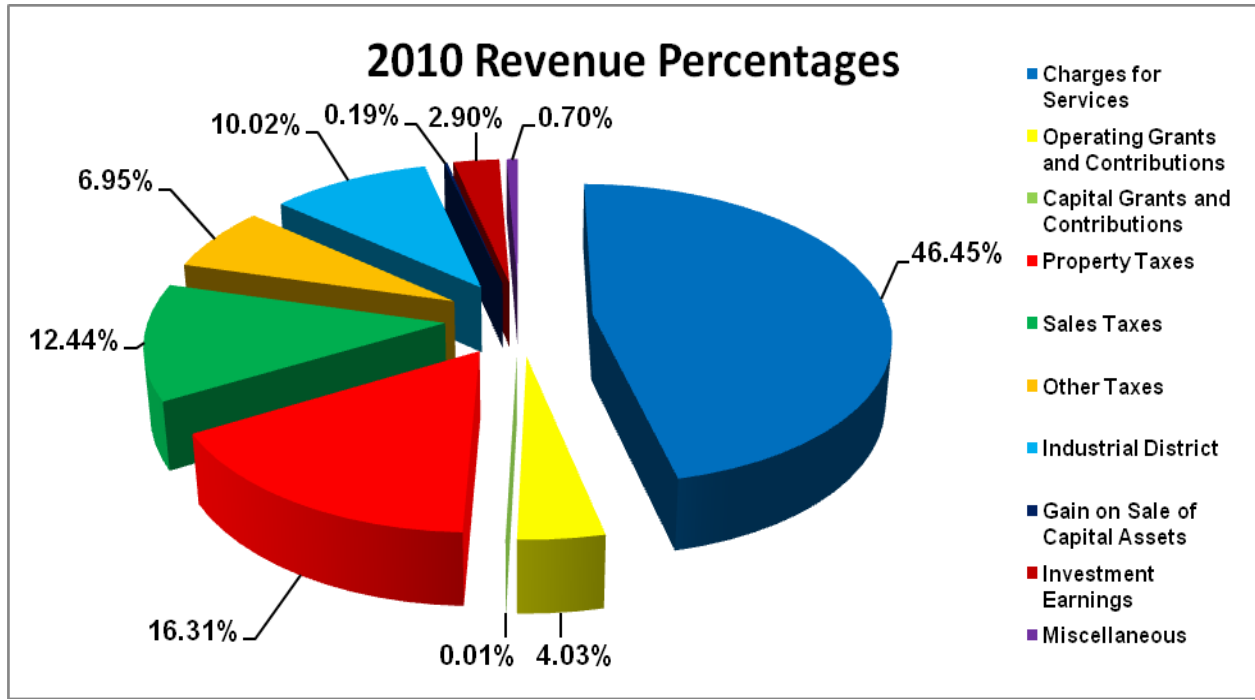
As of September 30, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2010. Governmental activities increased the City of Clute's net assets by \$ 1,053,641 and business-type activities decreased the City's net assets by \$ 169,881.

	CITY OF CLUTE'S CHANGES IN NET ASSETS					
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 2,988,005	\$ 2,879,874	\$ 3,168,179	\$ 2,730,068	\$ 6,156,184	\$ 5,609,942
Operating grants and contributions	533,820	749,056		339	533,820	749,395
Capital grants and contributions			929	13,502	929	13,502
General Revenues:						
Property taxes	2,161,809	2,009,678			2,161,809	2,009,678
Sales tax	1,648,230	1,808,587			1,648,230	1,808,587
Other taxes	920,722	952,283			920,722	952,283
Industrial district	1,327,848	1,368,902			1,327,848	1,368,902
Gain on disposition of capital assets	24,613	89,789			24,613	89,789
Investment earnings	347,588	55,956	37,454	13,241	385,042	69,197
Miscellaneous	92,651	132,185			92,651	132,185
Total revenues	<u>10,045,286</u>	<u>10,046,310</u>	<u>3,206,562</u>	<u>2,757,150</u>	<u>13,251,848</u>	<u>12,803,460</u>
Expenses:						
General government and administration	1,030,295	994,364			1,030,295	994,364
Public safety	4,381,340	4,135,803			4,381,340	4,135,803
Sanitation	1,241,690	1,415,150			1,241,690	1,415,150
Streets and drainage	1,274,637	1,223,277			1,274,637	1,223,277
Culture and recreation	1,268,844	1,360,094			1,268,844	1,360,094
Interest on long-term debt	164,077	184,444	122,008	14,566	286,085	199,010
Water and sewer			2,885,197	2,947,309	2,885,197	2,947,309
Total expenses	<u>9,360,883</u>	<u>9,313,132</u>	<u>3,007,205</u>	<u>2,961,875</u>	<u>12,368,088</u>	<u>12,275,007</u>
Increase (decrease) in net assets before transfers	684,403	733,178	199,357	(204,725)	883,760	528,453
Transfers	<u>369,238</u>	<u>142,989</u>	<u>(369,238)</u>	<u>(142,989)</u>	<u>-0-</u>	<u>-0-</u>
Increase (decrease) in net assets	1,053,641	876,167	(169,881)	(347,714)	883,760	528,453
Net assets - beginning	<u>22,483,487</u>	<u>21,607,320</u>	<u>10,908,689</u>	<u>11,256,403</u>	<u>33,392,176</u>	<u>32,863,723</u>
Net assets - ending	<u>\$ 23,537,128</u>	<u>\$ 22,483,487</u>	<u>\$ 10,738,808</u>	<u>\$ 10,908,689</u>	<u>\$ 34,275,936</u>	<u>\$ 33,392,176</u>

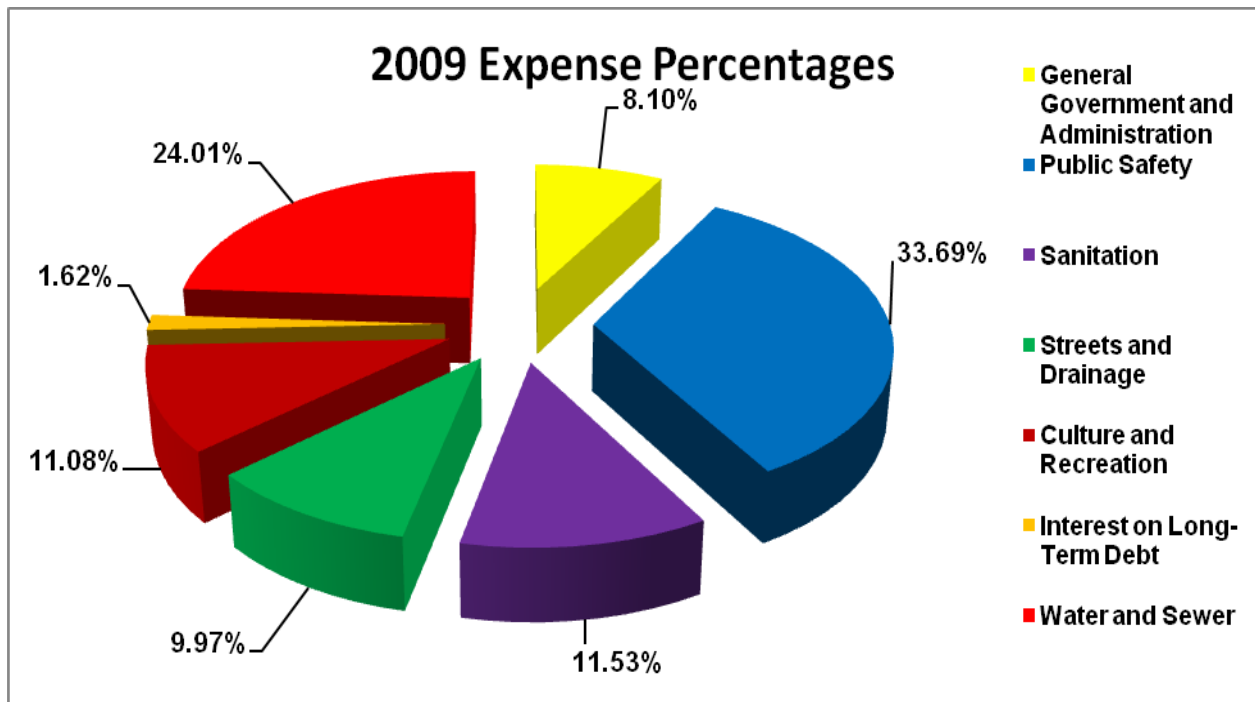
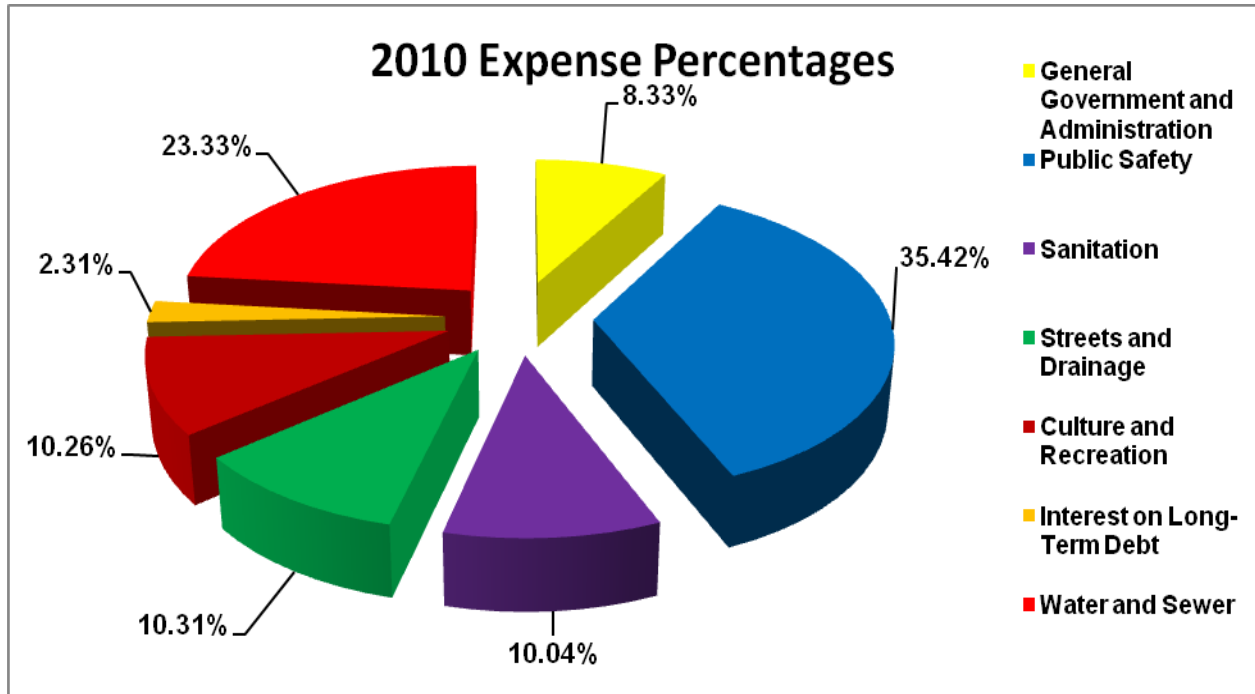
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Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City of Clute's governmental funds reported combined ending fund balances of \$ 11,797,695. 98.71% of this total amount (\$ 11,645,684) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for the expenditure of municipal court security (\$ 41,490), 2) for municipal court technology (\$ 97,867), and 3) and for judicial efficiency (\$ 12,654).

The General Fund balance increased by \$ 732,913; the Streets, Drainage and Sidewalks Fund balance increased by \$ 129,439, Emergency Medical Service Fund balance increased by \$ 53,688, Economic Development Corporation Fund balance increased by \$ 46,578, and other governmental funds increased by \$ 87,443.

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

Unrestricted net assets at September 30, 2010 amounted to \$ 1,356,449. Total net assets decreased by \$ 169,881 (or 1.56%).

General Fund Budgetary Highlights. Revenues were decreased by \$ 456,990 from the original budget to the final amended budget. Expenditures were increased by \$ 585,535 from the original budget to the final amended budget. The City's revenues exceeded the budgeted amounts by \$ 269,230 and the budget exceeded expenditures by \$ 194,147.

Capital Assets

The City of Clute's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$ 26,583,846 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment.

Major capital asset events during the current fiscal year included the following:

- Library alarm system \$ 7,309
- Tablet computers \$ 9,859
- Trash containers \$ 12,450
- Water meters \$ 11,830
- Parks office renovations \$ 9,520
- Sewer line - Lexington \$ 866,520
- Sewer pump \$ 9,585

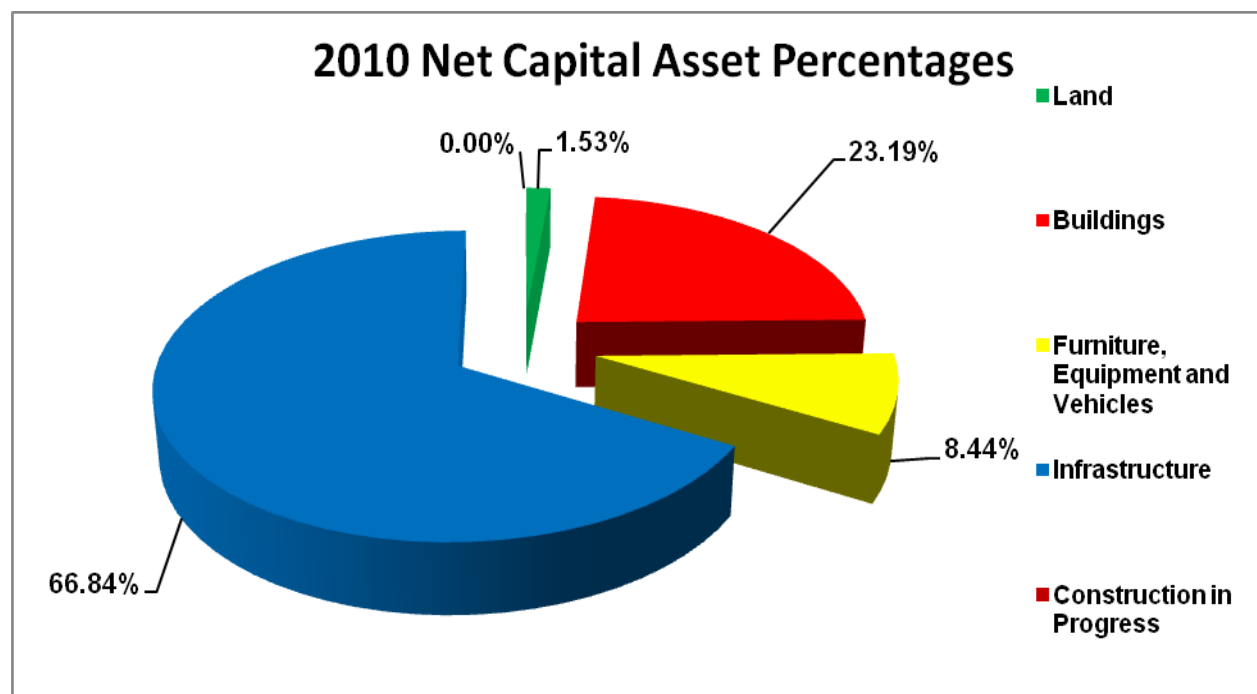
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- Storm water coalition \$ 113,144
- Street improvements \$ 191,333
- Tasers \$ 7,858
- Traffic signals \$ 62,463
- Police vehicles \$ 62,921
- Police vests \$ 2,540
- Water line improvements \$ 117,023
- Waste water treatment plant \$ 74,593

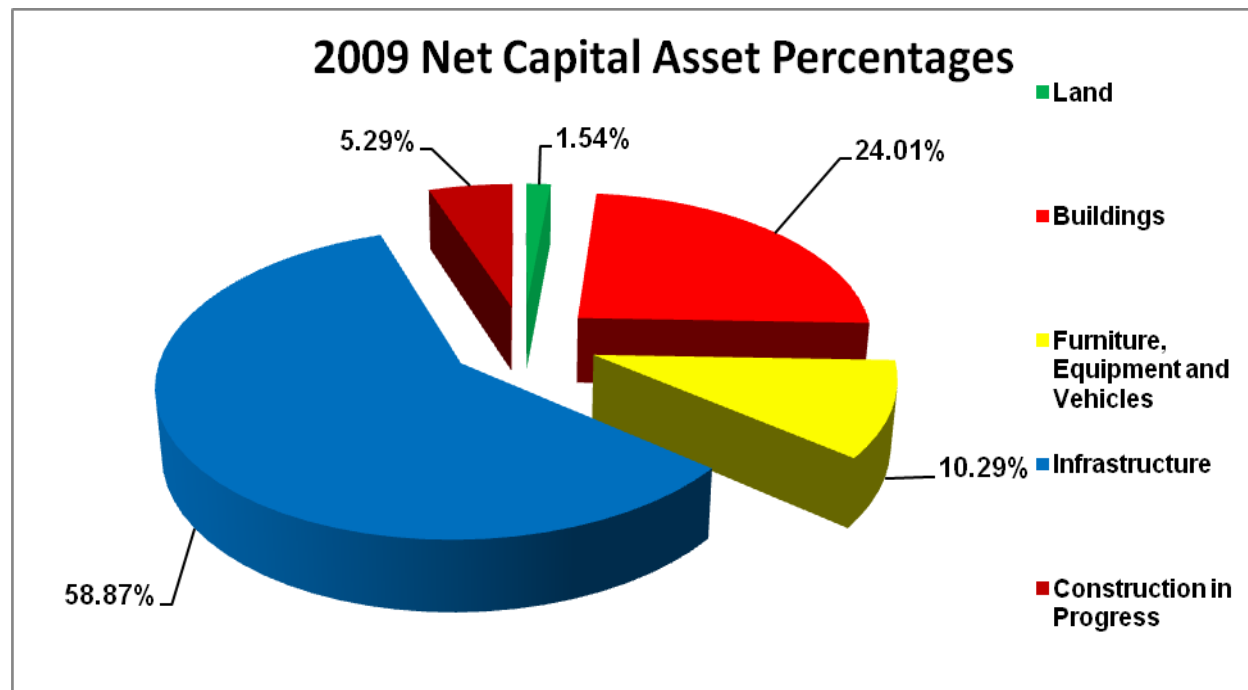
City of Clute's Capital Assets Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2010	2009	2010	2009	2010	2009
Land	\$ 398,660	\$ 398,660	\$ 7,562	\$ 7,562	\$ 406,222	\$ 406,222
Buildings	5,912,782	6,081,128	253,000	263,000	6,165,782	6,344,128
Furniture, equipment and vehicles	1,995,955	2,415,326	246,926	302,655	2,242,881	2,717,981
Infrastructure	6,661,331	6,457,466	11,107,630	9,096,543	17,768,961	15,554,009
Construction in progress		97,168		1,301,995	-0-	1,399,163
Total	\$ 14,968,728	\$ 15,449,748	\$ 11,615,118	\$ 10,971,755	\$ 26,583,846	\$ 26,421,503



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Additional information on the City of Clute's capital assets can be found in Note 6 on pages 47 through 49 of this report.

Debt Administration

City of Clute's Long-Term Liabilities

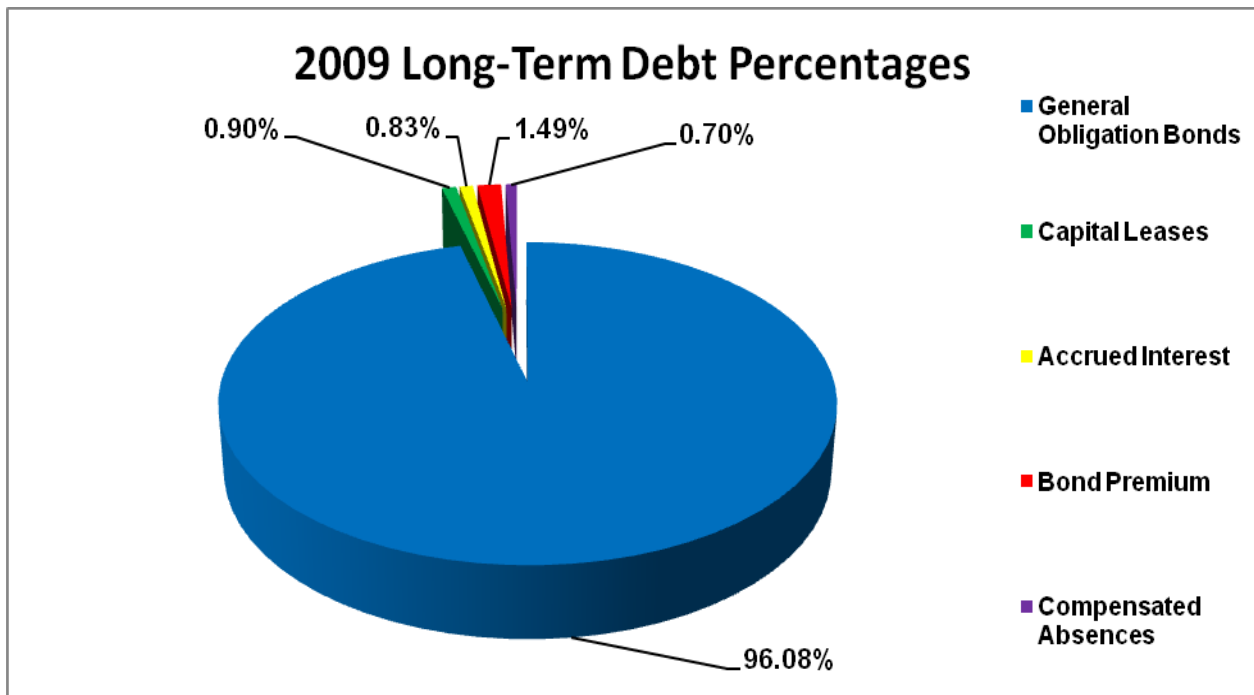
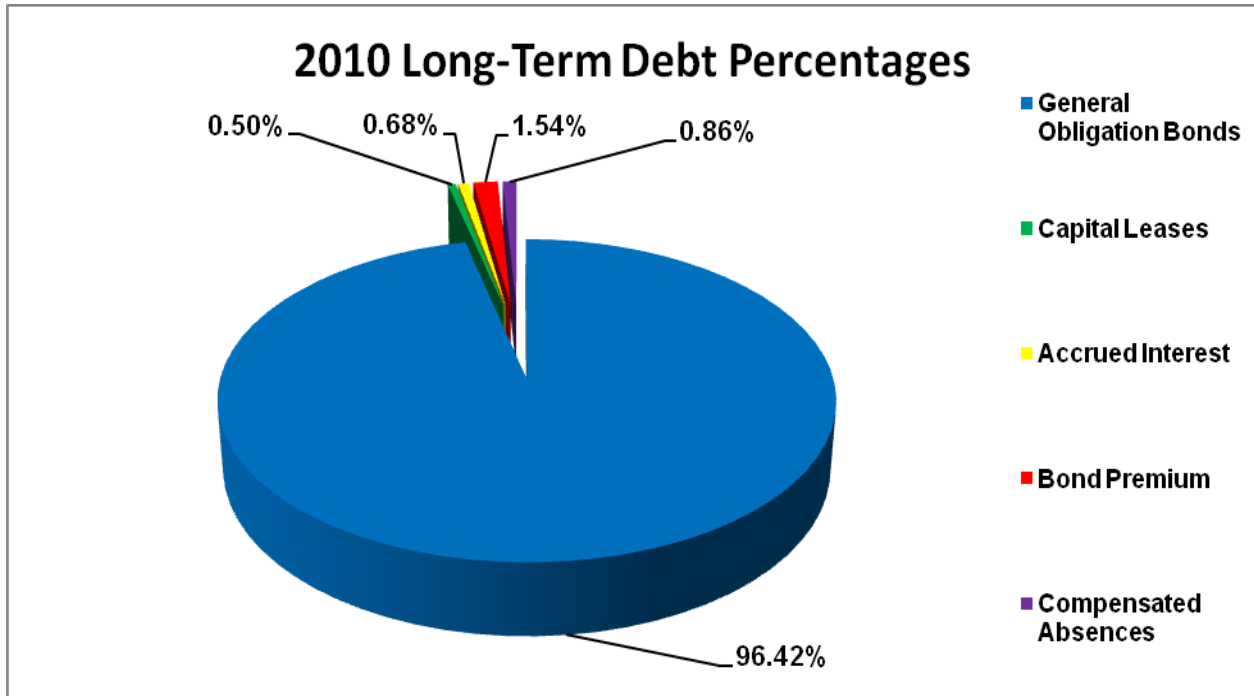
	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 3,685,000	\$ 4,145,000	\$ 2,885,000	\$ 3,000,000	\$ 6,570,000	\$ 7,145,000
Capital leases	34,123	66,772			34,123	66,772
Components of Long-Term Debt:						
Accrued interest	26,154	30,626	20,209	31,059	46,363	61,685
Bond premium			104,965	110,688	104,965	110,688
Compensated absences	<u>53,228</u>	<u>46,587</u>	<u>5,340</u>	<u>5,438</u>	<u>58,568</u>	<u>52,025</u>
Total	<u>\$ 3,798,505</u>	<u>\$ 4,288,985</u>	<u>\$ 3,015,514</u>	<u>\$ 3,147,185</u>	<u>\$ 6,814,019</u>	<u>\$ 7,436,170</u>

At the end of the current fiscal year, the City of Clute had a total bonded debt payable of \$ 6,570,000. This amount is comprised of bonded debt backed by the full faith and credit of the City. \$ 3,685,000 of these bonds will be retired with transfers from the water and sewer and economic development corporation funds, as well as payments from the water and sewer fund.

Additional information on the City of Clute's long-term debt can be found in Note 15 on pages 60 through 63 of this report.

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*Management's Discussion and Analysis
For the Year Ended September 30, 2010*

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2010-2011, property tax valuations are \$ 320,973,966 with a tax rate of \$ 0.672/\$ 100. The overall economic downturn has affected sales taxes, which will remain down, showing an overall decrease of approximately 1.4% from the previous year's actual, and a 9.4% decrease from 2009-2010 budget. The City's response to this downturn is a continued freeze on hiring and an overall conservative approach to spending.

Projected total revenues for fiscal year 2010-2011 are budgeted to be \$ 13,065,033, and budgeted expenditures/expenses for the fiscal year 2010-2011 are \$ 13,840,112, reflecting a drawdown on reserves of \$ 775,078, which will be used for street, water line, and sewer line improvements.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, 108 E. Main Street, P.O. Box 997, Clute, Texas, 77531, or call (979) 265-2541.

CITY OF CLUTE

Clute, Texas

STATEMENT OF NET ASSETS

September 30, 2010

	Governmental Activities	Business- Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 5,195,810	\$ 461,133	\$ 5,656,943
Investments	6,291,442	912,141	7,203,583
Property taxes receivable (net)	537,525		537,525
Accounts receivables (net)	724,914	230,457	955,371
Due from other governments	190,994		190,994
Other receivables	55,318	51,036	106,354
Bond issuance costs (net of accumulated amortization)	41,342	104,965	146,307
Restricted Assets:			
Temporarily Restricted:			
Cash and cash equivalents		688,437	688,437
Investments		188,497	188,497
Capital Assets (Net of Accumulated Depreciation):			
Land	398,660	7,562	406,222
Buildings and improvements	5,912,782	253,000	6,165,782
Furniture, equipment and vehicles	1,995,955	246,926	2,242,881
Infrastructure	<u>6,661,331</u>	<u>11,107,630</u>	<u>17,768,961</u>
Total assets	<u>28,006,073</u>	<u>14,251,784</u>	<u>42,257,857</u>
Liabilities:			
Accounts payable	534,751	254,177	788,928
Accrued wages	117,414	10,969	128,383
Deferred revenue	18,275	7,623	25,898
Liabilities payable from restricted assets		224,693	224,693
Noncurrent Liabilities:			
Due within one year	593,505	141,272	734,777
Due in more than one year	<u>3,205,000</u>	<u>2,874,242</u>	<u>6,079,242</u>
Total liabilities	<u>4,468,945</u>	<u>3,512,976</u>	<u>7,981,921</u>
Net Assets:			
Invested in capital assets, net of related debt	11,264,793	8,730,118	19,994,911
Restricted For:			
Equipment replacement		331,690	331,690
Capital projects		320,551	320,551
Judicial security, technology & efficiency	152,011		152,011
Unrestricted	<u>12,120,324</u>	<u>1,356,449</u>	<u>13,476,773</u>
Total net assets	<u>\$ 23,537,128</u>	<u>\$ 10,738,808</u>	<u>\$ 34,275,936</u>

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

CITY OF CLUTE
Clute, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 1,030,295	\$	\$	\$
Public safety	4,381,340	1,455,970	505,820	
Sanitation	1,241,690	1,174,866		
Streets and drainage	1,274,637		28,000	
Culture and recreation	1,268,844	357,169		
Interest on long-term debt	<u>164,077</u>			
Total governmental activities	<u>9,360,883</u>	<u>2,988,005</u>	<u>533,820</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	<u>3,007,205</u>	<u>3,168,179</u>		<u>929</u>
Total business-type activities	<u>3,007,205</u>	<u>3,168,179</u>	<u>-0-</u>	<u>929</u>
Total	<u>\$ 12,368,088</u>	<u>\$ 6,156,184</u>	<u>\$ 533,820</u>	<u>\$ 929</u>
General Revenue:				
Taxes:				
Property taxes				
Sales taxes				
Other taxes				
Industrial district				
Gain on disposition of capital assets				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$(1,030,295)	\$	\$(1,030,295)
(2,419,550)		(2,419,550)
(66,824)		(66,824)
(1,246,637)		(1,246,637)
(911,675)		(911,675)
(164,077)		(164,077)
<u>(5,839,058)</u>	<u>-0-</u>	<u>(5,839,058)</u>
	161,903	161,903
<u>-0-</u>	<u>161,903</u>	<u>161,903</u>
<u>(5,839,058)</u>	<u>161,903</u>	<u>(5,677,155)</u>
2,161,809		2,161,809
1,648,230		1,648,230
920,722		920,722
1,327,848		1,327,848
24,613		24,613
347,588	37,454	385,042
92,651		92,651
<u>369,238</u>	<u>(369,238)</u>	<u>-0-</u>
<u>6,892,699</u>	<u>(331,784)</u>	<u>6,560,915</u>
1,053,641	(169,881)	883,760
<u>22,483,487</u>	<u>10,908,689</u>	<u>33,392,176</u>
<u>\$ 23,537,128</u>	<u>\$ 10,738,808</u>	<u>\$ 34,275,936</u>

CITY OF CLUTE

Clute, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2010

	<u>General</u>	<u>Streets, Drainage and Sidewalks</u>	<u>Emergency Medical Service</u>	<u>Economic Development Corporation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and temporary investments	\$ 1,442,980	\$ 1,359,194	\$ 139,852	\$ 1,562,554	\$ 691,230	\$ 5,195,810
Investments	4,518,280	1,773,162				6,291,442
Receivables (Net of Allowance for Uncollectibles):						
Taxes	438,147				99,378	537,525
Accounts	23,967		227,029			250,996
Other receivables	55,318					55,318
Due from other governments	189,352		1,642			190,994
Due from other funds	<u>267,666</u>					<u>267,666</u>
 Total assets	 <u>\$ 6,935,710</u>	 <u>\$ 3,132,356</u>	 <u>\$ 368,523</u>	 <u>\$ 1,562,554</u>	 <u>\$ 790,608</u>	 <u>\$ 12,789,751</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Accounts payable	\$ 456,407	\$ 9,402	\$ 24,457		\$ 44,485	\$ 534,751
Accrued wages	96,615		19,552		1,247	117,414
Due to other funds			267,666			267,666
Deferred revenue	<u>72,225</u>					<u>72,225</u>
 Total liabilities	 <u>625,247</u>	 <u>9,402</u>	 <u>311,675</u>	 <u>-0-</u>	 <u>45,732</u>	 <u>992,056</u>
 <u>Fund Balance:</u>						
<u>Reserved:</u>						
Municipal court security	41,490					41,490
Municipal court technology	97,867					97,867
Judicial efficiency	12,654					12,654
<u>Unreserved:</u>						
<u>Designated For:</u>						
Capital improvement	132,095					132,095
Equipment replacement	3,050,795					3,050,795
Buildings	271,529					271,529
Police department	36,551					36,551
Subsequent years expenditure		3,122,954	56,848	1,562,554	744,876	5,487,232
Undesignated	<u>2,667,482</u>					<u>2,667,482</u>
 Total fund balances	 <u>6,310,463</u>	 <u>3,122,954</u>	 <u>56,848</u>	 <u>1,562,554</u>	 <u>744,876</u>	 <u>11,797,695</u>
 Total liabilities and fund balances	 <u>\$ 6,935,710</u>	 <u>\$ 3,132,356</u>	 <u>\$ 368,523</u>	 <u>\$ 1,562,554</u>	 <u>\$ 790,608</u>	 <u>\$ 12,789,751</u>

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

CITY OF CLUTE

Clute, Texas

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

September 30, 2010

Total fund balances – governmental funds balance sheet	\$ 11,797,695
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 24,333,540 in assets less \$ 9,364,812 in accumulated depreciation.	14,968,728
Municipal court accounts receivable net of related allowance for uncollectibles are unavailable to pay for current period expenditures and are not recorded in the funds. Municipal court receivables (\$ 1,008,395) net of allowance for uncollectible accounts (\$534,477) of the general fund amounted to \$ 473,918.	473,918
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to \$ 53,950.	53,950
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. This is the debt issuance costs which is amortized over the life of the bond. This amount is debt issuance costs \$ 55,125 less accumulated costs of \$ 13,783.	41,342
Payables for bond principal are not reported in the funds.	(3,685,000)
Payables for capital lease principal are not reported in the funds.	(34,123)
Payables for long-term compensated absences are not reported in the funds.	(53,228)
Payables for bond interest are not reported in the funds.	(<u>26,154</u>)
Net assets of governmental activities – statement of net assets.	\$ <u>23,537,128</u>

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

CITY OF CLUTE

Clute, Texas

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

For the Year Ended September 30, 2010

	<u>General</u>	<u>Streets, Drainage and Sidewalks</u>	<u>Emergency Medical Service</u>	<u>Economic Development Corporation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Ad valorem taxes	\$ 2,174,451					\$ 2,174,451
Sales tax	659,292	439,528		549,410		1,648,230
Other taxes	572,761				347,961	920,722
Industrial district	1,327,848					1,327,848
Intergovernmental revenues	291,747		26,298			318,045
Revenue producing facilities	1,265,967				223,567	1,489,534
EMS revenues			709,912			709,912
Fines and fees	578,618					578,618
Licenses and fees	157,891					157,891
Investment income	251,523	92,514		2,563	988	347,588
Miscellaneous	<u>95,573</u>		<u>215,775</u>		<u>42,501</u>	<u>353,849</u>
Total revenues	<u>7,375,671</u>	<u>532,042</u>	<u>951,985</u>	<u>551,973</u>	<u>615,017</u>	<u>10,026,688</u>
Expenditures:						
Current:						
Administration	936,114					936,114
Public safety	3,105,460		1,023,879			4,129,339
Sanitation	1,068,565					1,068,565
Streets and drainage	952,423					952,423
Culture and recreation	660,120				486,154	1,146,274
Capital outlay	102,597	366,940	9,859			479,396
Debt Service:						
Principal retirement	460,000	32,649				492,649
Interest and fiscal charges	<u>162,748</u>	<u>3,014</u>				<u>165,762</u>
Total expenditures	<u>7,448,027</u>	<u>402,603</u>	<u>1,033,738</u>	<u>-0-</u>	<u>486,154</u>	<u>9,370,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72,356)</u>	<u>129,439</u>	<u>(81,753)</u>	<u>551,973</u>	<u>128,863</u>	<u>656,166</u>
Other Financing Sources (Uses):						
Proceeds from insurance	24,657					24,657
Operating transfers in	994,253		213,641			1,207,894
Operating transfers out	<u>(213,641)</u>		<u>(78,200)</u>	<u>(505,395)</u>	<u>(41,420)</u>	<u>(838,656)</u>
Total other financing sources (uses)	<u>805,269</u>	<u>-0-</u>	<u>135,441</u>	<u>(505,395)</u>	<u>(41,420)</u>	<u>393,895</u>
Excess of revenues and other sources over (under) expenditures and other uses	732,913	129,439	53,688	46,578	87,443	1,050,061
Fund balance, October 1, (Restated)	<u>5,577,550</u>	<u>2,993,515</u>	<u>3,160</u>	<u>1,515,976</u>	<u>657,433</u>	<u>10,747,634</u>
Fund balance, September 30,	<u>\$ 6,310,463</u>	<u>\$ 3,122,954</u>	<u>\$ 56,848</u>	<u>\$ 1,562,554</u>	<u>\$ 744,876</u>	<u>\$ 11,797,695</u>

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

CITY OF CLUTE

Clute, Texas

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

For the Year Ended September 30, 2010

Net change in fund balances – total governmental funds	\$ 1,050,061
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation \$ 957,450 exceeded capital outlay \$ 479,396 in the current period.	(478,054)
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. The change in municipal court receivables, net of allowance, amounted to \$ 9,548.	9,548
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 12,642.	(12,642)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt of \$ 460,000 and capital lease of \$ 32,649.	492,649
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the basis in assets retired in the amount of \$ 2,966 (original cost of assets of \$ 47,290 less accumulated depreciation of \$ 44,324).	(2,966)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt of (\$ 4,472), accrued compensated absences of \$ 6,640, and the amortization of bond issuance costs of \$ 2,787.	<u>4,955</u>
Change in net assets of governmental activities	<u>\$ 1,053,641</u>

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

CITY OF CLUTE
Clute, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND

September 30, 2010

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and temporary investments	\$ 461,133
Investments	912,141
Receivables (Net of Allowance for Uncollectibles):	
Utility accounts	230,457
Other	<u>51,036</u>
Total unrestricted current assets	<u>1,654,767</u>
Restricted Assets:	
Cash and temporary investments	688,437
Investments	<u>188,497</u>
Total restricted current assets	<u>876,934</u>
Total current assets	<u>2,531,701</u>
Noncurrent Assets:	
Deferred charges	<u>104,965</u>
Capital Assets:	
Property, plant and equipment	19,266,252
Less accumulated depreciation	<u>(7,651,134)</u>
Total capital assets (net of accumulated depreciation)	<u>11,615,118</u>
Total assets	<u>\$ 14,251,784</u>

(Continued)

CITY OF CLUTE
Clute, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND - Continued

September 30, 2010

	<u>Enterprise Fund</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable	\$ 254,177
Accrued wages	10,969
Accrued compensated absences	5,340
Accrued interest payable	20,209
Bonds payable – current	115,723
Deferred revenue	<u>7,623</u>
	<u>414,041</u>
Current Liabilities Payable from Restricted Assets:	
Customer deposits payable	<u>224,693</u>
	<u>224,693</u>
Total current liabilities	638,734
Non-current Liabilities:	
Bonds payable – net	<u>2,874,242</u>
Total liabilities	<u>3,512,976</u>
Net Assets:	
Invested in capital assets, net of related debt	8,730,118
Reserved For:	
Equipment replacement	331,690
Construction	320,551
Unreserved	<u>1,356,449</u>
Total net assets	<u>10,738,808</u>
Total liabilities and net assets	<u>\$ 14,251,784</u>

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

CITY OF CLUTE

Clute, Texas

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

For the Year Ended September 30, 2010

	Enterprise Fund
Operating Revenues:	
Water service	\$ 1,430,751
Sewer service	1,364,080
Tapping and reconnection fees	24,500
Penalties	38,147
Other governments	161,185
Operating lease income	146,422
Miscellaneous	<u>3,094</u>
Total operating revenues	<u>3,168,179</u>
Operating Expenses:	
Water production	847,910
Water distribution	171,683
Sewage collection	370,759
Sewage treatment	877,203
Administrative	<u>178,803</u>
Operating expenses before depreciation	2,446,358
Depreciation	<u>436,189</u>
Total operating expenses	<u>2,882,547</u>
Net operating income	<u>285,632</u>
Non-Operating Revenues (Expenses):	
Interest revenue	37,454
Bond interest and fees	<u>(124,658)</u>
Total non-operating revenues (expenses)	<u>(87,204)</u>
Net income before contributions and operating transfers	198,428
Contributions	929
Transfers out	<u>(369,238)</u>
Change in net assets	(169,881)
Net assets, beginning	<u>10,908,689</u>
Net assets, ending	<u>\$ <u>10,738,808</u></u>

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

CITY OF CLUTE

Clute, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND**

For the Year Ended September 30, 2010

	Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 3,187,015
Payments from other funds	(1,267,439)
Payments to other funds	3,058
Payments to suppliers	(3,265,440)
Payments to employees	(340,511)
Net cash used by operating activities	(1,683,317)
Cash Flows from Non-Capital Financing Activities:	
Operating transfers to other funds	(369,238)
Net cash used by non-capital financing activities	(369,238)
Cash Flows from Capital and Related Financing Activities:	
Premium on bonds	(5,723)
Bond issuance costs	5,723
Principal bond payments	(115,000)
Interest and fees paid under debt obligations	(124,658)
Purchase of capital assets	(1,079,552)
Capital grant	929
Net cash used by capital and related financing activities	(1,318,281)
Cash Flows from Investing Activities:	
Purchase of investments	(27,930,348)
Sale of investments	28,712,932
Interest on investments	37,454
Net cash provided by investing activities	820,038
Net decrease in cash and cash equivalents	(2,550,798)
Cash and cash equivalents at the beginning of year	3,700,368
Cash and cash equivalents at the end of the year	\$ 1,149,570

(Continued)

CITY OF CLUTE

Clute, Texas

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

For the Year Ended September 30, 2010

	<u>Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Activities:	
Operating income	\$ <u>285,632</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	436,188
(Increase) Decrease in:	
Accounts receivable	12,585
Other receivable	34,888
Due from other governments	339
Due from other funds	3,058
Prepaid expenses	110,949
Increase (Decrease) In:	
Accounts payable	(1,261,779)
Accrued wages	2,186
Accrued interest	(10,850)
Compensated absences	(98)
Customer deposits	(28,489)
Deferred revenue	(487)
Due to other funds	<u>(1,267,439)</u>
Total adjustments	<u>(1,968,949)</u>
Net cash used by operating activities	<u><u>\$(1,683,317)</u></u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from other governments	\$ <u>929</u>
Net effect of non-cash transactions	<u><u>\$ 929</u></u>

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

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CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included in the reporting entity:

Primary Government

The City of Clute operates under a Home Rule Charter adopted in a special election on November 7, 1957. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

Government-Wide and Fund Financial Statements

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements - continued

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

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. The City has only one enterprise fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Revenues from property and sales taxes, grants and contracts, charges for services, licenses and permits, fines and forfeitures, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services and rentals.

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

The City has presented the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The *Streets, Drainage and Sidewalks special revenue fund* accounts for forty percent of the sales taxes collected and approved expenditures related to the construction of a new sewer, new sidewalks, new curbs and gutters, and the resurfacing of existing streets and new streets.

The *Emergency Medical Service (EMS) special revenue fund* accounts for the insurance collections for services rendered by the EMS Department and for the voluntary contributions received from the City's utility bills. The EMS Department yearly operations are self-supporting.

The *Economic Development Corporation special revenue fund* accounts for the Economic Development Sales tax (one-third of all sales tax) and approved expenditures for providing parks and recreation facilities and infrastructure projects.

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

New Pronouncements

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

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

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - continued

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

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

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

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

Budgetary Data

In late August, each department of the City submits requests for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to members of the City Council for review. The City Council holds budget workshops in September and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Council. Line item and department budgets may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were not made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (general fund and special revenue funds) and proprietary fund type (enterprise funds). The budget and all transactions are presented in GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Streets, Drainage and Sidewalks Special Revenue, Emergency Medical Service Special Revenue, and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances

The City does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations lapse at the end of the fiscal year.

Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City elected to implement GASB Statement No. 31 (GASB 31), "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" as of September 30, 1996. As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at fair value, except for interest-earning investment contracts and external investment pools (See Note 2).

In applying GASB 31, the City utilizes the following methods and assumptions as of September 30.

1. Fair value is based on quoted market prices as of the valuation date.
2. The portfolio did not hold investments in any of the following:
 - a. Items required to be reported at amortized cost,
 - b. Items in external pools that are not SEC-registered,
 - c. Items subject to involuntary participation in an external pool,
 - d. Items associated with a fund other than the fund to which the income is assigned;
3. The gain/loss resulting from valuation is reported within the revenue account "investment income" on the Statement of Revenues, Expenditures and Changes in Fund Balances.

Property Taxes

Taxes receivable and related allowance for uncollectible are reported in the General Fund. The City levies taxes on or about October 1, of each year. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes - continued

The assessed value of the property tax roll on August 1, 2009, upon which the levy for the 2009-10 fiscal year was based, was \$ 288,722,917. The tax rates assessed for the year ended September 30, 2010, to finance general fund operations was \$ 0.672 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2010 were 95.40% of the year-end adjusted tax levy. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2010, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 102,578.

Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

Inventories

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of inventory items are recorded as expenditures when acquired and inventory on hand at the end of the period is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2010 was not significant and therefore, is not recorded.

Pension Plans

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Buildings	50 Years
Sewer Plant	50 Years
Sewer System:	
Sewer lines	50 Years
Lift station pumps	15 Years
Water System:	
Water lines	50 Years
Storage tanks	50 Years
Water wells	40 Years
Equipment	5-20 Years
Vehicles	5-8 Years

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide Statement of Net Assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

NOTE 2 - RESTATEMENT OF FUND BALANCE

During the year ended September 30, 2009, accounts payable totaling \$ 97,168 was recorded in the General Fund. The accounts payable should have been recorded and expensed in the Streets, Drainage and Sidewalks Fund. The beginning fund balances for the General Fund and Streets, Drainage and Sidewalks Fund have been restated as follows:

Fund balance for General Fund at September 30, 2009	\$ 5,480,382
Decrease in accounts payable and decrease in expenditures	<u>97,168</u>
Restated Fund Balance for General Fund at September 30, 2009	<u>\$ 5,577,550</u>
Fund balance for Streets, Drainage and Sidewalks at September 30, 2009	\$ 3,090,683
Increase in accounts payable and increase in expenditures	<u>(97,168)</u>
Restated Fund Balance for Streets, Drainage and Sidewalks at September 30, 2009	<u>\$ 2,993,515</u>

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, as reported on the combined balance sheet at September 30, 2010 (totals memorandum only) are as follows:

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 5,324	\$	\$ 5,324
Financial Institution Deposits:			
Demand deposits	1,761,032		1,761,032
Money market	371,838		371,838
State Treasury Investment Pool:			
Texpool	<u>3,518,749</u>	<u>688,437</u>	<u>4,207,186</u>
Total cash and temporary investments	<u>\$ 5,656,943</u>	<u>\$ 688,437</u>	<u>\$ 6,345,380</u>
Investments:			
Investments Held by Broker-Dealers:			
U.S. government and agency securities	<u>\$ 7,203,583</u>	<u>\$ 188,497</u>	<u>\$ 7,392,080</u>
Total investments	<u>\$ 7,203,583</u>	<u>\$ 188,497</u>	<u>\$ 7,392,080</u>

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2010, in addition to petty cash of \$ 5,324, the carrying amount of the City's cash, savings, time deposits, and money markets was \$ 2,132,870. The financial institutions balances were \$ 2,204,861 at September 30, 2010. Bank balances of \$ 500,000 were covered by federal depository insurance, \$ 371,838 covered by securities depository insurance, and \$ 1,333,023 was covered by collateral pledged in the City's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent. The City maintains copies of all safekeeping receipts.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

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

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

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Domestic securities that are obligations of, or guaranteed by, the U.S. Government or its agencies and are registered with the Securities and Exchange Commission and traded on a recognized U.S. securities exchange or over-the-counter-market.
7. Fixed income securities including domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, securitized mortgages and collateralized mortgage obligations.
8. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

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

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

At September 30, 2010 Texpool had a weighted average maturity of 34 days. Although Texpool portfolio had a weighted average maturity of 34 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City also invests in an asset management pool, UBS Global Asset Management (GAM), through UBS Financial Services, Inc. The pool invests conservatively in U.S. securities. The U.S. securities, which make up 100% of the City's investments with UBS, have a weighted average maturity of 2,240 days. Although UBS portfolio had a weighted average maturity of 2,240 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2010.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ 4,207,186	1
U.S. Treasuries	<u>7,392,080</u>	<u>1</u>
	<u>\$ 11,599,266</u>	<u>1</u>

Credit Risk – As of September 30, 2010, the LGIPs (which represent approximately 36% of the City's portfolio) are rated AAAM by Standard and Poor's. Approximately 64% of the portfolio consists of direct obligations of the US government.

Interest rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy states that the City avoid over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2010, and holds no direct investments in derivatives at September 30, 2010.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 53,950	\$
Grant proceeds		139
Court bonds		3,902
Law enforcement deposits	<u> </u>	<u>14,234</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 53,950</u>	<u>\$ 18,275</u>

As of September 30, 2010, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Unapplied credits	\$ <u>7,623</u>
Total deferred/unearned revenue from proprietary funds	\$ <u>7,623</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2010 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds:		
Emergency Medical Service	\$ <u>267,666</u>	\$ <u> </u>
Special Revenue Funds:		
Emergency Medical Service:		
General Fund	<u> </u>	<u>267,666</u>
Total	<u>\$ 267,666</u>	<u>\$ 267,666</u>

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers for the year ended September 30, 2010 consisted of the following individual fund transfers in and transfers out:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Funds:		
Emergency Medical Service	\$ 78,200	\$ 213,641
Economic Development Corporation	505,395	
Hotel/Motel	41,420	
Enterprise Fund	<u>369,238</u>	
	<u>994,253</u>	<u>213,641</u>
Special Revenue Funds:		
Emergency Medical Service:		
General Fund	\$ 213,641	\$ 78,200
Economic Development Corporation:		
General Fund		505,395
Hotel/Motel:		
General Fund		<u>41,420</u>
Total Special Revenue Funds	<u>213,641</u>	<u>625,015</u>
Enterprise Fund:		
General Fund		<u>369,238</u>
Total	<u>\$ 1,207,894</u>	<u>\$ 1,207,894</u>

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2010 was as follows:

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Governmental Activities:					
Non-Depreciated Capital Assets:					
Land	\$ 398,660	\$	\$	\$	\$ 398,660
Construction in progress	<u>97,168</u>		(97,168)		<u>-0-</u>
Total non-depreciated	<u>495,828</u>	<u>-0-</u>	<u>(97,168)</u>	<u>-0-</u>	<u>398,660</u>
Depreciated Capital Assets:					
Buildings	7,938,594	9,520			7,948,114
Furniture, equipment and vehicles	5,590,321	165,401		47,290	5,708,432
Infrastructure	<u>9,876,691</u>	<u>304,475</u>	<u>97,168</u>		<u>10,278,334</u>
Total depreciated	<u>23,405,606</u>	<u>479,396</u>	<u>97,168</u>	<u>47,290</u>	<u>23,934,880</u>
Total additions/retirements		<u>\$ 479,396</u>	<u>\$ -0-</u>	<u>\$ 47,290</u>	

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Accumulated Depreciation:					
Buildings	\$ 1,857,466	\$ 177,866	\$	\$	\$ 2,035,332
Furniture, equipment and vehicles	3,174,995	581,806		44,324	3,712,477
Infrastructure	<u>3,419,225</u>	<u>197,778</u>			<u>3,617,003</u>
Total accumulated depreciation	<u>8,451,686</u>	<u>\$ 957,450</u>	<u>\$ -0-</u>	<u>\$ 44,324</u>	<u>9,364,812</u>
Net depreciated capital assets	<u>14,953,920</u>				<u>14,570,068</u>
Net capital assets	<u>\$ 15,449,748</u>				<u>\$ 14,968,728</u>
	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Business-type Activities:					
Non-Depreciated Capital Assets:					
Land	\$ 7,562	\$	\$	\$	\$ 7,562
Construction in progress	<u>1,301,995</u>		<u>(1,301,995)</u>		<u>-0-</u>
Total non-depreciated	<u>1,309,557</u>	<u>-0-</u>	<u>(1,301,995)</u>	<u>-0-</u>	<u>7,562</u>
Depreciated Capital Assets:					
Buildings	500,000				500,000
Improvements other than buildings	15,660,661	1,079,551	1,301,995		18,042,207
Furniture, equipment and vehicles	<u>716,483</u>				<u>716,483</u>
Total depreciated	<u>16,877,144</u>	<u>1,079,551</u>	<u>1,301,995</u>	<u>-0-</u>	<u>19,258,690</u>
Total additions/retirements		<u>\$ 1,079,551</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	
Accumulated Depreciation:					
Buildings	\$ 237,000	\$ 10,000	\$	\$	\$ 247,000
Improvements other than buildings	6,564,118	370,459			6,934,577
Furniture, equipment and vehicles	<u>413,828</u>	<u>55,729</u>			<u>469,557</u>
Total accumulated depreciation	<u>7,214,946</u>	<u>\$ 436,188</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>7,651,134</u>
Net depreciated capital assets	<u>9,662,198</u>				<u>11,607,556</u>
Net capital assets	<u>\$ 10,971,755</u>				<u>\$ 11,615,118</u>

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS - Continued

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

Governmental Activities:

Administration	\$ 92,921
Public safety	248,065
Sanitation	173,180
Streets and drainage	319,582
Culture and recreation	<u>123,702</u>

Total depreciation expense-governmental activities \$ 957,450

Business-type Activities:

Water and sewer	\$ <u>436,188</u>
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Total depreciation expense-business-type activities \$ 436,188

NOTE 7 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The allowance for uncollectible taxes for the year ended September 30, 2010 was \$ 56,152.

Customer Receivables

The allowance for uncollectible receivables related to City services, including water and sewer, garbage, and EMS, is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 32,486, \$ 7,745, and \$ 1,831,776, respectively.

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2010 was \$ 534,477.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 8 - EMPLOYEE SICK LEAVE BENEFITS

The City's sick leave policy provides fifteen paid sick days per year and allows employees to carryover unused sick days to subsequent years. After five years of service, an employee will be paid up to eighty hours for unused sick leave at the time of resignation or termination. For the year ended September 30, 2010, the City had accrued sick leave in the governmental activities for \$ 53,228 and in the business-type activities for \$ 5,340.

The City's vacation policy does not allow unused vacation to carry over from one year to the next. Accordingly, no liability is recorded for accrued vacation.

NOTE 9 - CONTINGENT LIABILITIES

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2010.

NOTE 10 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN

Pension Trust Fund

The City, as an employer, participates as one of the 837 plans in the statewide agent multiple-employer plan administered by the System, providing pension benefits for all of its full-time employees. The plan provisions that have been adopted by the Texas Municipal Retirement System (TMRS) Board of Trustees are within the options available in the governing state statutes. Employees can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The contribution rate for employees is 7% and the matching percentage for the City is 200% as adopted by the governing body of the City. The City, as an employer, has adopted 100% updated service credit (USC) on a repeating basis and annual increases (AI) on a repeating basis, at 70% of the change in the CPI. Employees are vested after 5 years of service, but their accumulated deposits and interest must remain in the plan to receive any employer-financed benefits.

At retirement, death, disability, the benefit is calculated by converting the sum of the employee's personal account balance and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed the TMRS Act. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD). As an employer, the City's annual pension costs and contributions to the Pension Trust Fund for the years ended September 30, 2010, 2009 and 2008 were \$ 408,339, \$ 367,028, and \$ 337,069, respectively, which equaled 100% of the required contributions each year.

Funding Policy – Under the state law governing TMRS, the actuary annually determines the City's contribution rate on a calendar-year basis. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 9.74% of covered payroll for the months in calendar year 2009, and 10.45% for the months in calendar year 2010. This rate consists of the normal cost contribution rate and the prior service contribution rate.

CITY OF CLUTE
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 10 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued

Pension Trust Fund - Continued

The normal cost contribution rate finances the currently accruing monetary credits due to 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 actuarial liability. 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 basis for the rate and the calendar year when the rate goes into effect – for example, the January 1, 2011 contribution rate is based on the December 31, 2009 valuation results. If a change in plan provisions is elected by the City, this rate can change.

Plan Provisions -	<u>2007*</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
1) Total number of participating entities	827	827	823	837
City Specific:				
2) Employee deposit rate	7.0%	7.0%	7.0%	7.0%
3) Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1	2 to 1
4) Years required for vesting	5	5	5	5
5) Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20	60/5, 0/20
6) Updated service credit	100%	100%	100%	100%
annually repeating (Y/N)	Y	Y	Y	Y
7) Annuity increase to retirees	70%	70%	70%	70%
annually repeating (Y/N)	Y	Y	Y	Y
8) Supplemental death benefit:				
For active employees (Y/N)	Y	Y	Y	Y
For retirees (Y/N)	Y	Y	Y	Y
 Actuarial Information -	 <u>2007*</u>	 <u>2007</u>	 <u>2008</u>	 <u>2009</u>
1) Actuarial cost method	Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
2) Amortization method	Level % of payroll	Level % of payroll	Level % of payroll	Level % of payroll
3) Amortization period	25 years - open period	30 years - closed period	29 years - closed period	28 years – closed period
4) Asset valuation method (cost)	amortized	amortized	amortized	10-year smoothed market

CITY OF CLUTE
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 10 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued

Pension Trust Fund - Continued

Plan Provisions -	2007*	2007	2008	2009
5) Assumptions:				
Investment return	7.0%	7.0%	7.5%	7.5%
Projected salary increases	None	varies - age and service	varies - age and service	varies - age and service
Inflation	3.5%	3.0%	3.0%	3.0%
Cost-of-living adjustments	None	2.1%	2.1%	2.1%
6) City specific assumptions				
Payroll growth assumption	4.0%	3.0%	3.0%	3.0%
Withdrawal rates	Mid/Mid	Mid/High	Mid/High	Mid/High

Funding Information -

Actuarial Valuation Date	Actuarial Value of Assets*** (a)	Actuarial Accrued Liability** (AAL)- (b)	Unfunded AAL (UAAL) (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
2007*	\$ 6,799,362	\$ 7,607,913	\$ 808,551	89.4%	\$ 3,196,486	25.3%
2007****	6,799,362	8,531,781	1,732,419	79.7%	3,196,486	54.2%
2008	7,421,393	9,443,391	2,021,998	78.6%	3,776,276	53.5%
2009	8,229,496	10,410,577	2,181,081	79.0%	4,017,042	54.3%

* Under old assumptions (for comparative purposes only).

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

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

**** The drop in funded ratio in 2007 is due primarily to a funding method change adopted by the TMRS Board to advance fund annually repeating USC and AI.

At its December 2009, meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2009. A summary of actuarial assumptions and definitions can be found in the December 31, 2009 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2008 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a

CITY OF CLUTE
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 10 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued

Pension Trust Fund - Continued

change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

In addition, TMRS is currently working on its legislative package for 2010. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for 2010 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio that includes equities as well. If legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2010 actuarial valuation.

In response to the increase in the required contribution rate, the City has elected the 8-year phase-in period to increase contributions to the full (required) rate. The City's full contribution rate for calendar year 2010 is 10.67%, and the (elected) phase-in rate for calendar year 2011 is 11.22%.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

OPEB-Supplemental Death Benefits Fund

The City as an employer 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 to provide group-term life insurance coverage to both current and retired employees. 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). The death benefit for retirees is considered a post-employment benefit other than pension benefit (OPEB or other post-employment benefit) and is a fixed amount of \$ 7,500.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. Such rates were 0.22% and 0.22% in 2010 and 2009, respectively, as a percentage of covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding 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 employee's entire careers. As an employer, the City contributions to the SDBF for the years ended September 30, 2010, 2009, and 2008 were \$ 8,641, \$ 8,374, and \$ 10,505, respectively, which equaled 100% of the required contributions each year.

CITY OF CLUTE
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 10 - PENSION AND OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued

OPEB-Supplemental Death Benefits Fund

Plan Provisions -	2008	2009
1) Total number of participating entities offering supplemental death to retirees	717	720
City Specific:		
2) Supplemental death benefit:		
For active employees (Y/N)	Y	Y
For retirees (Y/N)	Y	Y
Actuarial Information -	2008	2009
1) Valuation date	12-31-08	12-31-09
2) Actuarial cost method	Projected Unit Credit	Projected Unit Credit
3) Amortization method	Level percent of payroll	Level percent of Payroll
4) Amortization period	25 years open period	25 years open period
5) Asset valuation method	Fund value	Fund value
6) Assumptions:		
Investment return	4.25%	4.25%
Projected salary increases	None	None
Inflation	3.0%	3.0%
Cost-of-living adjustments	None	None

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

NOTE 11 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND

Plan Description

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

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 11 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

Plan Description - Continued

The table below summarizes the TESRS membership as of August 31, 2010:

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

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

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

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

Funding Policy

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

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$ 2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. Contributions made were equal to the contributions required.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 11 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

Annual Required Contributions - Continued

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

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

Required Supplementary Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) ¹ - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/06	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	1,962
8/31/08 ²	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/10 ³	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

Notes:

¹ The actuarial accrued liability is based upon the entry age actuarial cost method.

² Changes in actuarial assumptions were reflected in this valuation.

³ Changes in actuarial assumptions and method were reflected in this valuation.

Three-Year Trend Information

Fiscal Year Ending	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
August 31, 2008	\$ 3,160,764 ¹	\$ 11,239,339 ²	356%
August 31, 2009	2,698,271 ³	2,698,271	100%
August 31, 2010	2,875,102 ³	2,875,103	100%

¹ Includes a state contribution of \$ 675,307.

² Includes a state contribution of \$ 8,800,000.

³ Based on the August 31, 2008 actuarial valuation.

⁵ Includes a State contribution of \$ 8,800,000.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 11 - TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND - Continued

Required Supplementary Information - Schedule of Funding Progress - Continued

The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

Valuation date	August 31, 2008	August 31, 2010
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	6 years	30 years
Asset valuation method	Market value smoothed by a	Market value smoothed by a
		5-year deferred recognition
		5-year deferred recognition
		method with a 90%/110%
		method with a 80%/120%
		corridor on market value
		corridor on market value
Actuarial assumptions:		
Investment rate of return*	8.00% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected salary increases	N/A	N/A
* Included inflation at	3.5%	3.5%
Cost-of-living adjustments	None	None

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

NOTE 12 - INDUSTRIAL DISTRICT CONTRACT

The City of Clute in conjunction with the Cities of Lake Jackson and Freeport has entered into a contract with the Dow Chemical Company, BASF Corporation, and the Brock interests. The Cities gave consideration in the two following forms:

1. The Cities have agreed to refrain from initiating proceedings for the annexation of all or part of land described and outlined in the contract as Industrial Districts.
2. Respective codes, ordinances and laws of the Cities pertaining to building or construction, zoning, electrical, plumbing, health and safety regulations, air and water quality regulations and supervision; will not be applicable to the Districts.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 12 - INDUSTRIAL DISTRICT CONTRACT - Continued

The two corporations have in turn given consideration to the Cities in the following two forms:

1. Each City is to receive a specified sum of money on an annual basis over the terms of the contract.
2. The Cities will not be expected to provide within the Districts the ordinary municipal services such as water, sewage disposal, drainage, police and fire protection except in the event of an emergency.

During the year ended September 30, 2001, a new industrial district contract was negotiated. The term of this contract is for ten (10) years from July 1, 2001, through December 31, 2010. Contract payments are payable in semi-annual installments each June 30 and December 31. The amount of the payments are to be calculated each year based upon the industrial district's taxable value times contracted rate (0.325 through 0.500 for payment made during the calendar years from 2001 through 2010) times the value weighted tax rate. Total industrial district revenues received during the year ended September 30, 2010 amounted to \$ 1,327,848.

NOTE 13 - JOINT VENTURE

The City was involved in a joint venture with the City of Richwood for the construction of a sewer plant which provides service to both cities. The joint venture was substantially completed and placed in service as of September 30, 1987. This project was funded by a federal EPA construction grant for waste treatment plant in which the federal portion of qualifying expenditures was 75 percent and the cities portion was 25 percent. The City's portion of the 25 percent of qualifying expenditures and all non-qualifying expenditures was 75 percent. The City of Richwood was responsible for the remaining 25 percent.

In addition, the City is party to an agreement with the City of Richwood to share costs associated with the operation of the sewer treatment plant. The percentage for sharing the operating expenses (excludes capital outlay) is determined based upon metered flow. For the year ended September 30, 2010 the City of Richwood's portion of these expenses was determined to be 17 percent, which amounted to \$ 134,437.

Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions), which amounted to \$ 10,712 for the year ended September 30, 2010. The City maintains both budgetary and accounting responsibility over these expenses and disbursements and, therefore, has reported intergovernmental revenue, from the City of Richwood, in the amount of \$ 161,188 within the Enterprise Fund for the year ended September 30, 2010.

The City is also in agreement with the City of Richwood to provide Emergency Medical Service for the residents of Richwood. The City is to receive \$ 9,000 each quarter from the City of Richwood. For the year ended September 30, 2010, the City received \$ 36,000 from the City of Richwood.

During the year ended September 30, 2003, the City began a joint venture with the City of Freeport, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The City and Freeport contributed \$ 150,000 each and the SPCA contributed \$ 250,000 for a total of \$ 550,000 to Lake Jackson for the design, construction, and furnishing of the \$ 1,100,000 facility. The term of the agreement is from March 1, 2003 through February 28, 2023. During the fiscal year, the City paid \$ 73,248 to the shelter for their portion to cover the administrative operating expenses.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 14 - OPERATING LEASES

The City is committed under a lease for the use of 2.5 acres of land being utilized as a gun range for the Police Department. The lease is for the period October 1, 2008 through September 30, 2013 and, for accounting purposes, is considered to be an operating lease. Payments are due on October 1st each year. The City is also leasing seven copiers and pays a per copy charge.

Minimum future rentals to be paid on noncancelable leases, as of September 30, 2010, for each of the next five years and in the aggregate are as follows:

<u>Year Ended September 30,</u>	<u>2010</u>
2011	\$ 1,800
2012	1,800
2013	<u>1,800</u>
	<u>\$ 5,400</u>

Gross rental expenditures for operating leases, including month-to-month for the year ended September 30, 2010 was as follows:

	<u>2010</u>
Copier rental (usage)	\$ 16,580
Gun Range	<u>1,800</u>
	<u>\$ 18,380</u>

On February 26, 2010, the City's Enterprise Fund entered into an interlocal waste water transmission line lease agreement, an operating lease, with the City of Richwood. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payment. During the year ended September 30, 2010 the business-type activities reported revenues in the amount of \$ 146,422. The following are the minimal lease payments from Richwood required under this lease:

<u>Year Ending September 30,</u>	<u>Total Requirements</u>
2011	\$ 195,376
2012	197,067
2013	148,041
2014	132,269
2015	133,299
2016-2020	687,284
2021-2025	735,844
2026	<u>38,025</u>
Total	<u>\$ 2,267,205</u>

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 15 - LONG-TERM DEBT

General Long-Term Debt:

On October 20, 2005, the City issued \$ 3,500,000 of Series 2005 Certificates of Obligation Bonds. The bonds were for the acquisition, construction and improvements of certain public works. The general obligation bonds payable at September 30, 2010 is summarized as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/10
		Issued	Maturity	Callable	
Certificate Obligation Bonds					
Series 2002A	4.690	2002	2012	No	\$ 440,000
Series 2002B	4.690	2002	2002	No	300,000
Series 2005	3.920	2005	2025	2007	<u>2,945,000</u>
					<u>\$ 3,685,000</u>

Certificate of obligation bond transactions for the year ended September 30, 2010 were as follows:

	<u>2010</u>
Bonds outstanding, October 1	\$ 4,145,000
Maturities	<u>(460,000)</u>
Bonds outstanding, September 30	<u>\$ 3,685,000</u>

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2010 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 480,000	\$ 141,708	\$ 621,708
2012	505,000	119,651	624,651
2013	165,000	105,840	270,840
2014	170,000	99,372	269,372
2015	175,000	92,708	267,708
2016-2020	990,000	354,564	1,344,564
2021-2025	<u>1,200,000</u>	<u>145,040</u>	<u>1,345,040</u>
	<u>\$ 3,685,000</u>	<u>\$ 1,058,883</u>	<u>\$ 4,743,883</u>

Since property taxes are not utilized for the payment of the Certificate of Obligation, Series 2002 and 2005, the City is not required to maintain a Debt Service Fund. The Economic Development Corporation (a special revenue fund) and The Water and Sewer (enterprise fund) transferred funds in the amount of \$ 465,395 and \$ 157,353, respectively, to the General Fund for the payment of the principal, interest, and fees of the Certificate of Obligation, Series 2002 and 2005.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 15 - LONG-TERM DEBT - Continued

Proprietary Fund Debt:

On August 19, 2009, the City issued \$ 3,000,000 of Series 2009 Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bonds were acquired to provide improvements to the waterworks and sewer system and the payment of professional services related thereto, including costs of issuing the certificates. The general obligation bonds payable at September 30, 2010 is as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/10
		Issued	Maturity	Callable	
Certificate Obligation Bonds					
Series 2009	2.000 - 5.750	2009	2029	No	\$ <u>2,885,000</u>
					\$ <u>2,885,000</u>

Certificate of obligation bond transactions for the year ended September 30, 2010 were as follows:

	<u>2010</u>
Bonds outstanding, October 1	\$ 3,000,000
Issued	<u>(115,000)</u>
Bonds outstanding, September 30	\$ <u>2,885,000</u>

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2010 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 110,000	\$ 120,300	\$ 230,300
2012	110,000	118,100	228,100
2013	115,000	115,850	230,850
2014	115,000	113,262	228,262
2015	120,000	110,025	230,025
2016-2020	680,000	486,162	1,166,162
2021-2025	815,000	336,963	1,151,963
2026-2029	<u>820,000</u>	<u>93,188</u>	<u>913,188</u>
	\$ <u>2,885,000</u>	\$ <u>1,493,850</u>	\$ <u>4,378,850</u>

Capital Leases:

On January 20, 2009, the City acquired equipment (Asphalt Zipper AZ500) for \$ 102,434 under capital lease for twenty-four months with an interest rate of 4.5% and three payments of annual payments of \$ 35,663 due on January 1, 2009 through 2011.

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 15 - LONG-TERM DEBT - Continued

Capital Leases: - Continued

The asset acquired through capital lease is as follows:

	<u>2010</u>
Asset:	
Equipment	\$ 102,434
Less accumulated depreciation	<u>22,426</u>
Total	<u>\$ 80,008</u>

The following is a schedule of future minimum lease payments under capital lease, together with the net present value of the minimum lease payments at September 30, 2010:

<u>Year Ended</u> <u>September 30,</u>	<u>2010</u>
2011	<u>\$ 35,663</u>
Less amount representing interest	<u>1,540</u>
Net present value of minimum lease payments	<u>\$ 34,123</u>

The City paid \$ 3,014 in interest during the year ended September 30, 2010.

Current Transactions:

Transactions for the year ended September 30, 2010 are summarized as follows:

	<u>Balance</u> <u>10/01/09</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/10</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 4,145,000	\$	\$ 460,000	\$ 3,685,000	\$ 480,000
Capital leases	66,772		32,649	34,123	34,123
Compensated absences	46,587	53,228	46,587	53,228	53,228
Component on Bonded Debt:					
Accrued Interest Payable:					
Bonds	28,552	25,094	28,552	25,094	25,094
Capital lease	<u>2,074</u>	<u>1,060</u>	<u>2,074</u>	<u>1,060</u>	<u>1,060</u>
Total governmental activities	<u>4,288,985</u>	<u>79,382</u>	<u>569,862</u>	<u>3,798,505</u>	<u>593,505</u>

(continued)

CITY OF CLUTE

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2010

NOTE 15 - LONG-TERM DEBT - Continued

Current Transactions: - Continued

	<u>Balance 10/01/09</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/10</u>	<u>Due Within One Year</u>
Business Type Activities:					
General obligation bonds	3,000,000		115,000	2,885,000	110,000
Compensated absences	5,438	5,340	5,438	5,340	5,340
Component on Bonded Debt:					
Accrued interest payable	31,059	20,209	31,059	20,209	20,209
Premium on bonds	<u>110,688</u>		<u>5,723</u>	<u>104,965</u>	<u>5,723</u>
Total business type activities	<u>3,147,185</u>	<u>25,549</u>	<u>157,220</u>	<u>3,015,514</u>	<u>141,272</u>
Total government (net)	<u>\$ 7,436,170</u>	<u>\$ 104,931</u>	<u>\$ 727,082</u>	<u>\$ 6,814,019</u>	<u>\$ 734,777</u>

NOTE 16 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property and worker's compensation claims. The City pays annual premiums to the pool for the coverage stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the City's exposure for claims is designed to be limited to their deductible.

NOTE 17 - EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2010, expenditures exceeded appropriations in the following funds

Special Revenue Funds:

 Great Texas Mosquito Festival \$ 5,599

The budget was not amended to cover the expenditures; however, the City council approved these expenditures as required by City budget procedures.

NOTE 18 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 25, 2011, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLUTE

Clute, Texas

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 2,315,150	\$ 2,315,150	\$ 2,174,451	\$(140,699)
Sales tax	1,177,600	706,560	659,292	(47,268)
Other taxes	421,500	421,500	572,761	151,261
Industrial district	1,318,800	1,318,800	1,327,848	9,048
Intergovernmental revenues	256,030	256,030	291,747	35,717
Revenue producing facilities	1,245,131	1,245,131	1,265,967	20,836
Fines and fees	536,100	536,100	578,618	42,518
Licenses and fees	71,000	71,000	157,891	86,891
Investment income	82,120	82,120	251,523	169,403
Miscellaneous	140,000	154,050	95,573	(58,477)
Total revenues	7,563,431	7,106,441	7,375,671	269,230
Expenditures:				
Current:				
Administration	839,582	760,052	936,114	(176,062)
Public safety	3,095,533	3,165,846	3,105,460	60,386
Sanitation	1,055,569	1,060,630	1,068,565	(7,935)
Streets and drainage	1,076,749	1,082,234	952,423	129,811
Culture and recreation	683,666	697,214	660,120	37,094
Capital outlay	305,540	253,450	102,597	150,853
Debt Service:				
Principal retirement		460,000	460,000	-0-
Interest and fiscal charges		162,748	162,748	-0-
Total expenditures	7,056,639	7,642,174	7,448,027	194,147
Excess of revenues over (under) expenditures	506,792	(535,733)	(72,356)	463,377
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	20,000	20,000		(20,000)
Proceeds from insurance			24,657	24,657
Operating transfers in	1,167,933	1,044,692	994,253	(50,439)
Operating transfers out	(1,341,645)	(213,641)	(213,641)	-0-
Total other financing sources (uses)	(153,712)	851,051	805,269	(45,782)
Excess of revenues and other sources over (under) expenditures and other uses	353,080	315,318	732,913	417,595
Fund balance, beginning (restated)	5,577,550	5,577,550	5,577,550	-0-
Fund balance, ending	\$ 5,930,630	\$ 5,892,868	\$ 6,310,463	\$ 417,595

CITY OF CLUTE

Clute, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
STREETS, DRAINAGE AND SIDEWALKS SPECIAL REVENUE FUND

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 471,040	\$ 471,040	\$ 439,528	\$ (31,512)
Investment income	<u>26,000</u>	<u>26,000</u>	<u>92,514</u>	<u>66,514</u>
Total revenues	<u>497,040</u>	<u>497,040</u>	<u>532,042</u>	<u>35,002</u>
Expenditures:				
Capital outlay	842,000	842,000	366,940	475,060
Debt Service:				
Principal retirement			32,649	(32,649)
Interest and fiscal charges			<u>3,014</u>	<u>(3,014)</u>
Total expenditures	<u>842,000</u>	<u>842,000</u>	<u>402,603</u>	<u>439,397</u>
Excess of revenues over (under) expenditures	(344,960)	(344,960)	129,439	474,399
Fund balance, beginning	<u>2,993,515</u>	<u>2,993,515</u>	<u>2,993,515</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 2,648,555</u>	<u>\$ 2,648,555</u>	<u>\$ 3,122,954</u>	<u>\$ 474,399</u>

CITY OF CLUTE

Clute, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
EMERGENCY MEDICAL SERVICE SPECIAL REVENUE FUND**

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$	\$	\$ 26,298	\$ 26,298
EMS Revenues	750,320	750,320	709,912	(40,408)
Miscellaneous	<u>189,000</u>	<u>189,000</u>	<u>215,775</u>	<u>26,775</u>
Total revenues	<u>939,320</u>	<u>939,320</u>	<u>951,985</u>	<u>12,665</u>
Expenditures:				
Current:				
Public safety	1,043,649	1,043,649	1,023,879	19,770
Capital outlay	<u>14,485</u>	<u>14,485</u>	<u>9,859</u>	<u>4,626</u>
Total expenditures	<u>1,058,134</u>	<u>1,058,134</u>	<u>1,033,738</u>	<u>24,396</u>
Excess of revenues over (under) expenditures	(118,814)	(118,814)	(81,753)	37,061
Other Financing Sources (Uses):				
Operating transfers in		213,641	213,641	-0-
Operating transfers out	(78,200)	(78,200)	(78,200)	-0-
Total other financing sources (uses)	(78,200)	135,441	135,441	-0-
Excess of revenues and other sources over (under) expenditures and other uses	(197,014)	16,627	53,688	37,061
Fund balance, beginning	<u>3,160</u>	<u>3,160</u>	<u>3,160</u>	<u>-0-</u>
Fund balance, ending	<u>\$(193,854)</u>	<u>\$ 19,787</u>	<u>\$ 56,848</u>	<u>\$ 37,061</u>

CITY OF CLUTE

Clute, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT CORPORATION SPECIAL REVENUE FUND**

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 588,800	\$ 588,800	\$ 549,410	\$(39,390)
Investment income	13,260	13,260	2,563	(10,697)
Total revenues	<u>602,060</u>	<u>602,060</u>	<u>551,973</u>	<u>(50,087)</u>
Expenditures:				
Current:				
Administration	66,250	66,250		66,250
Total expenditures	<u>66,250</u>	<u>66,250</u>	<u>-0-</u>	<u>66,250</u>
Excess of revenues over (under) expenditures	<u>535,810</u>	<u>535,810</u>	<u>551,973</u>	<u>16,163</u>
Other Financing Sources (Uses):				
Operating transfers out	(505,394)	(505,394)	(505,395)	(1)
Total other financing sources (uses)	<u>(505,394)</u>	<u>(505,394)</u>	<u>(505,395)</u>	<u>(1)</u>
Excess of revenues and other sources over (under) expenditures and other uses	30,416	30,416	46,578	16,162
Fund balance, beginning	<u>1,515,976</u>	<u>1,515,976</u>	<u>1,515,976</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 1,546,392</u>	<u>\$ 1,546,392</u>	<u>\$ 1,562,554</u>	<u>\$ 16,162</u>

CITY OF CLUTE

Clute, Texas

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u> (a)	<u>Actuarial Accrued Liability* (AAL)-</u> (b)	<u>Unfunded AAL (UAAL)</u> (b-a)	<u>Percentage Funded</u> (a/b)	<u>Annual Covered Payroll</u> (c)	<u>UAAL as a Percentage of Covered Payroll</u> (b-a)/(c)
2007	\$ 6,799,362	\$ 8,531,781	\$ 1,732,419	79.70%	\$ 3,196,486	54.20%
2008	7,421,393	9,443,391	2,021,998	78.59%	3,776,276	53.54%
2009	8,229,496	10,410,577	2,181,081	79.00%	4,017,042	54.30%

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

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

CITY OF CLUTE

Clute, Texas

TEXAS STATEWIDE EMERGENCY SERVICES PERSONNEL RETIREMENT FUND
 SCHEDULE OF FUNDING PROGRESS
 LAST THREE FISCAL YEARS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/06**	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	1,962
8/31/08	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/10	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

* The actuarial accrued liability is based upon the entry age actuarial cost method.

** Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

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OTHER SCHEDULES

CITY OF CLUTE

Clute, Texas

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Special Revenue Funds		
	Hotel Motel	Great Texas Mosquito Festival	Total
Assets:			
Cash and temporary investments	\$ 549,600	\$ 141,630	\$ 691,230
Receivables:			
Taxes	99,378		99,378
Total assets	\$ 648,978	\$ 141,630	\$ 790,608
Liabilities:			
Accounts payable	\$ 44,485	\$	\$ 44,485
Accrued wages payable	1,247		1,247
Total liabilities	45,732	-0-	45,732
Fund Balances:			
Unreserved:			
Designated for subsequent years expenditures	603,246	141,630	744,876
Total fund balances	603,246	141,630	744,876
Total liabilities and fund balances	\$ 648,978	\$ 141,630	\$ 790,608

CITY OF CLUTE

Clute, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2010

	Special Revenue Funds		
	Hotel Motel	Great Texas Mosquito Festival	Total
Revenues:			
Hotel-motel tax	\$ 347,961	\$	\$ 347,961
Concessions and fees	3,500	220,067	223,567
Interest income	988		988
Miscellaneous	<u>42,501</u>		<u>42,501</u>
Total revenues	<u>394,950</u>	<u>220,067</u>	<u>615,017</u>
Expenditures:			
Current:			
Culture and Recreation:			
Tourist council	117,971		117,971
Fine arts council	124,021		124,021
Festival		195,599	195,599
Miscellaneous	<u>48,563</u>		<u>48,563</u>
Total expenditures	<u>290,555</u>	<u>195,599</u>	<u>486,154</u>
Excess of revenues over (under) expenditures	<u>104,395</u>	<u>24,468</u>	<u>128,863</u>
Other Financing Sources (Uses):			
Transfers out	<u>(41,420)</u>		<u>(41,420)</u>
Total other financing sources (uses)	<u>(41,420)</u>	<u>-0-</u>	<u>(41,420)</u>
Excess of revenues and other sources over (under) expenditures and other uses	62,975	24,468	87,443
Fund balance, beginning	<u>540,271</u>	<u>117,162</u>	<u>657,433</u>
Fund balance, ending	<u>\$ 603,246</u>	<u>\$ 141,630</u>	<u>\$ 744,876</u>

CITY OF CLUTE

Clute, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - HOTEL/MOTEL TAX SPECIAL REVENUE FUND

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 520,000	\$ 520,000	\$ 347,961	\$(172,039)
Revenue producing facilities			3,500	3,500
Investment income	5,500	5,500	988	(4,512)
Miscellaneous			42,501	42,501
Total revenues	525,500	525,500	394,950	(130,550)
Expenditures:				
Current:				
Culture and Recreation:				
Tourism Council	135,000	163,440	117,971	45,469
Fine Arts Council	185,692	185,692	124,021	61,671
Miscellaneous	55,716	55,716	48,563	7,153
Capital outlay	48,000	48,000		48,000
Total expenditures	424,408	452,848	290,555	162,293
Excess of revenues over (under) expenditures	101,092	72,652	104,395	31,743
Other Financing Sources (Uses):				
Operating transfers out	(41,420)	(41,420)	(41,420)	-0-
Total other financing sources (uses)	(41,420)	(41,420)	(41,420)	-0-
Excess of revenues and other sources over (under) expenditures and other uses	59,672	31,232	62,975	31,743
Fund balance, beginning	540,271	540,271	540,271	-0-
Fund balance, ending	\$ 599,943	\$ 571,503	\$ 603,246	\$ 31,743

CITY OF CLUTE

Clute, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GREAT TEXAS MOSQUITO FESTIVAL

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ 190,000	\$ 190,000	\$ 220,067	\$ 30,067
Total revenues	<u>190,000</u>	<u>190,000</u>	<u>220,067</u>	<u>30,067</u>
Expenditures:				
Current:				
Culture and recreation	<u>190,000</u>	<u>190,000</u>	<u>195,599</u>	<u>(5,599)</u>
Total expenditures	<u>190,000</u>	<u>190,000</u>	<u>195,599</u>	<u>(5,599)</u>
Excess of revenues over (under) expenditures	-0-	-0-	24,468	24,468
Fund balance, beginning	<u>117,162</u>	<u>117,162</u>	<u>117,162</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 117,162</u>	<u>\$ 117,162</u>	<u>\$ 141,630</u>	<u>\$ 24,468</u>

CITY OF CLUTE

Clute, Texas

CONSOLIDATED SCHEDULE OF ASSETS, LIABILITIES AND FUND EQUITY - GENERAL FUND - SUB-FUNDS

September 30, 2010

	Operating	Capital Improvement	Unemployment Insurance	Beautification
<u>Assets</u>				
Cash and temporary investments	\$ 784,525	\$ 209,756	\$ 23,128	\$ 61,574
Investments	1,482,984		311,947	
Receivables:				
Ad valorem taxes (less allowance for uncollectibles - \$ 56,152)	102,578			
Sales tax	311,488			
Other taxes	24,081			
Customer accounts (less allowance for uncollectibles - \$ 7,745)	23,967			
Other receivables	1,450	53,868		
Due from other governments	189,352			
Due from other funds	267,666			
Total assets	\$ 3,188,091	\$ 263,624	\$ 335,075	\$ 61,574
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 436,951		\$ 19,456	
Accrued wages payable	96,615			
Deferred revenue	72,225			
Total liabilities	605,791	-0-	19,456	-0-
<u>Fund Balances:</u>				
Reserved:				
Municipal court security	41,490			
Municipal court technology	97,867			
Judicial efficiency	12,654			
Unreserved:				
Designated For:				
Capital improvement		132,095		
Equipment replacement				
Buildings	140,000	131,529		
Police department				
Undesignated	2,290,289		315,619	61,574
Total fund balances	2,582,300	263,624	315,619	61,574
Total liabilities and fund balances	\$ 3,188,091	\$ 263,624	\$ 335,075	\$ 61,574

<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Total</u>
\$ 327,446	\$ 36,551	\$ 1,442,980
2,723,349		4,518,280
		102,578
		311,488
		24,081
		23,967
		55,318
		189,352
		<u>267,666</u>
<u>\$ 3,050,795</u>	<u>\$ 36,551</u>	<u>\$ 6,935,710</u>
\$	\$	\$ 456,407
		96,615
		<u>72,225</u>
<u>-0-</u>	<u>-0-</u>	<u>625,247</u>
		41,490
		97,867
		12,654
		132,095
3,050,795		3,050,795
		271,529
	36,551	36,551
		<u>2,667,482</u>
<u>3,050,795</u>	<u>36,551</u>	<u>6,310,463</u>
<u>\$ 3,050,795</u>	<u>\$ 36,551</u>	<u>\$ 6,935,710</u>

CITY OF CLUTE

Clute, Texas

CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND - SUB-FUNDS

For the Year Ended September 30, 2010

	<u>Operating</u>	<u>Capital Improvement</u>	<u>Unemployment Insurance</u>	<u>Beautification</u>
Revenues:				
Ad valorem taxes	\$ 2,174,451	\$	\$	\$
Sales tax	659,292			
Other taxes	572,761			
Industrial district	1,327,848			
Intergovernmental revenues	291,747			
Revenue producing facilities	1,265,967			
Fines and fees	578,618			
Licenses and fees	157,891			
Investment income	105,661	441	16,210	130
Miscellaneous	71,523			
Total revenues	7,205,759	441	16,210	130
Expenditures:				
Administrative:				
Administration	401,936			
Legislative	343,103			
Legal	75,968			
Finance	115,107			
Public Safety:				
Municipal court	241,754			
Code enforcement	197,499			
Police	2,538,959			
Fire	99,997			
Sanitation	1,068,565			
Street and drainage	952,423			
Culture and Recreation:				
Library	93,940			
Parks and recreation	566,180			
Capital outlay	15,167	9,520		
Debt Service:				
Principal retirement	460,000			
Interest expense	162,748			
Total expenditures	7,333,346	9,520	-0-	-0-
Excess of revenues over (under) expenditures	(127,587)	(9,079)	16,210	130

(Continued)

<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Total</u>
\$	\$	\$ 2,174,451
		659,292
		572,761
		1,327,848
		291,747
		1,265,967
		578,618
		157,891
129,025	56	251,523
<u>129,025</u>	<u>24,050</u>	<u>95,573</u>
<u>129,025</u>	<u>24,106</u>	<u>7,375,671</u>
		401,936
		343,103
		75,968
		115,107
		241,754
		197,499
	27,251	2,566,210
		99,997
		1,068,565
		952,423
		93,940
		566,180
77,910		102,597
		460,000
		<u>162,748</u>
<u>77,910</u>	<u>27,251</u>	<u>7,448,027</u>
<u>51,115</u>	<u>(3,145)</u>	<u>(72,356)</u>

CITY OF CLUTE

Clute, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL FUND - SUB-FUNDS - Continued**

For the Year Ended September 30, 2010

	<u>Operating</u>	<u>Capital Improvement</u>	<u>Unemployment Insurance</u>	<u>Beautification</u>
Other financing sources (uses):				
Proceeds from insurance	\$	\$	\$	\$
Operating transfers in	704,168			
Operating transfers out	(200,000)		(13,641)	
Intrafund transfers in (out)	<u>(498,802)</u>	<u> </u>	<u>(55,882)</u>	<u> </u>
Total other financing sources (uses)	<u>5,366</u>	<u>-0-</u>	<u>(69,523)</u>	<u>-0-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(122,221)	(9,079)	(53,313)	130
Fund balance, beginning (restated)	<u>2,704,521</u>	<u>272,703</u>	<u>368,932</u>	<u>61,444</u>
Fund balance, ending	<u>\$ 2,582,300</u>	<u>\$ 263,624</u>	<u>\$ 315,619</u>	<u>\$ 61,574</u>

<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Total</u>
\$ 24,657	\$	\$ 24,657
290,085		994,253
		(213,641)
<u>514,988</u>	<u>39,696</u>	<u>-0-</u>
<u>829,730</u>	<u>39,696</u>	<u>805,269</u>
880,845	36,551	732,913
<u>2,169,950</u>	<u></u>	<u>5,577,550</u>
<u>\$ 3,050,795</u>	<u>\$ 36,551</u>	<u>\$ 6,310,463</u>

CITY OF CLUTE

Clute, Texas

**CONSOLIDATED SCHEDULE OF NET ASSETS
ENTERPRISE FUND - SUB-FUNDS**

September 30, 2010

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
Assets:					
Current Assets:					
Cash and temporary investments	\$ 380,949	\$	\$ 80,184	\$	\$ 461,133
Investments	912,141				912,141
Accounts receivable utilities (less allowance for uncollectibles - \$ 32,486)	230,457				230,457
Other receivables	<u>51,036</u>				<u>51,036</u>
Total unrestricted current assets	<u>1,574,583</u>	<u>-0-</u>	<u>80,184</u>	<u>-0-</u>	<u>1,654,767</u>
Restricted Assets:					
Cash and temporary investments	224,693	143,193		320,551	688,437
Investments		<u>188,497</u>			<u>188,497</u>
Total restricted current assets	<u>224,693</u>	<u>331,690</u>	<u>-0-</u>	<u>320,551</u>	<u>876,934</u>
Total current assets	<u>1,799,276</u>	<u>331,690</u>	<u>80,184</u>	<u>320,551</u>	<u>2,531,701</u>
Noncurrent Assets:					
Deferred charges	<u>104,965</u>				<u>104,965</u>
Capital Assets:					
Property, plant and equipment (less accumulated depreciation - \$ 7,651,134)	<u>8,996,460</u>			<u>2,618,658</u>	<u>11,615,118</u>
Total capital assets (net of accumulated depreciation)	<u>8,996,460</u>	<u>-0-</u>	<u>-0-</u>	<u>2,618,658</u>	<u>11,615,118</u>
Total assets	<u>\$ 10,900,701</u>	<u>\$ 331,690</u>	<u>\$ 80,184</u>	<u>\$ 2,939,209</u>	<u>\$ 14,251,784</u>

(Continued)

CITY OF CLUTE

Clute, Texas

**CONSOLIDATED SCHEDULE OF NET ASSETS
ENTERPRISE FUND - SUB-FUNDS - Continued**

September 30, 2010

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 254,177	\$	\$	\$	\$ 254,177
Accrued wages	10,969				10,969
Accrued compensated absences	5,340				5,340
Accrued interest payable	20,209				20,209
Bonds payable - current	115,723				115,723
Due to other funds	<u>7,623</u>				<u>7,623</u>
	<u>414,041</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>414,041</u>
Current Liabilities Payable from Restricted Assets:					
Customer deposits payable	<u>224,693</u>				<u>224,693</u>
	<u>224,693</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>224,693</u>
Total current liabilities	638,734	-0-	-0-	-0-	638,734
Noncurrent Liabilities:					
Bonds payable - net	<u>2,874,242</u>				<u>2,874,242</u>
Total liabilities	<u>3,512,976</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,512,976</u>
Net Assets:					
Invested in capital assets, net of related debt	6,111,460			2,618,658	8,730,118
Reserved for equipment replacement		331,690			331,690
Reserved for construction				320,551	320,551
Unreserved:					
Designated for subsequent years expenditures	526,000				526,000
Undesignated	<u>750,265</u>		<u>80,184</u>		<u>830,449</u>
Total net assets	<u>7,387,725</u>	<u>331,690</u>	<u>80,184</u>	<u>2,939,209</u>	<u>10,738,808</u>
Total liabilities and net assets	<u>\$ 10,900,701</u>	<u>\$ 331,690</u>	<u>\$ 80,184</u>	<u>\$ 2,939,209</u>	<u>\$ 14,251,784</u>

CITY OF CLUTE

Clute, Texas

CONSOLIDATED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ENTERPRISE FUND - SUB-FUNDS

For the Year Ended September 30, 2010

	Operating	Equipment Replacement	Unemployment Insurance	Construction	Total
Operating Revenues:					
Water service	\$ 1,430,751	\$	\$	\$	\$ 1,430,751
Sewer service	1,364,080				1,364,080
Tapping and reconnection fees	24,500				24,500
Penalties	38,147				38,147
Other governments	161,185				161,185
Operating lease income	146,422				146,422
Miscellaneous	<u>3,094</u>				<u>3,094</u>
Total operating revenues	<u>3,168,179</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,168,179</u>
Operating Expenses:					
Water production	847,910				847,910
Water distribution	171,683				171,683
Sewage collection	370,759				370,759
Sewage treatment	877,203				877,203
Administrative	<u>178,803</u>				<u>178,803</u>
Operating expenses before depreciation	2,446,358	-0-	-0-	-0-	2,446,358
Depreciation	<u>380,659</u>			<u>55,530</u>	<u>436,189</u>
Total operating expenses	<u>2,827,017</u>	<u>-0-</u>	<u>-0-</u>	<u>55,530</u>	<u>2,882,547</u>
Net operating income (loss)	<u>341,162</u>	<u>-0-</u>	<u>-0-</u>	<u>(55,530)</u>	<u>285,632</u>
Non-operating Revenues (Expenses):					
Interest revenue	29,969	6,000	152	1,333	37,454
Bond Interest and fees	<u>(124,658)</u>				<u>(124,658)</u>
Total non-operating revenues (expenses)	<u>(94,689)</u>	<u>6,000</u>	<u>152</u>	<u>1,333</u>	<u>(87,204)</u>
Net income (loss) before contributions and operating transfers	246,473	6,000	152	(54,197)	198,428
Contributions	929				929
Transfers out	(157,353)	(211,885)			(369,238)
Intrafund transfers in (out)	<u>(87,203)</u>	<u>87,203</u>			<u>-0-</u>
Change in net assets	2,846	(118,682)	152	(54,197)	(169,881)
Net assets, beginning	<u>7,384,879</u>	<u>450,372</u>	<u>80,032</u>	<u>2,993,406</u>	<u>10,908,689</u>
Net assets, ending	<u>\$ 7,387,725</u>	<u>\$ 331,690</u>	<u>\$ 80,184</u>	<u>\$ 2,939,209</u>	<u>\$ 10,738,808</u>

CITY OF CLUTE

Clute, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL - ENTERPRISE FUND

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Operating Revenues:				
Water service	\$ 1,552,700	\$ 1,552,700	\$ 1,430,751	\$(121,949)
Sewer service	1,399,700	1,399,700	1,364,080	(35,620)
Tapping and reconnection fees	48,650	48,650	24,500	(24,150)
Penalties	120,000	120,000	38,147	(81,853)
Other governments	232,585	232,585	161,185	(71,400)
Operating lease income		195,230	146,422	(48,808)
Miscellaneous	5,000	5,000	3,094	(1,906)
Total operating revenues	3,358,635	3,553,865	3,168,179	(385,686)
Operating Expenses:				
Water production	877,742	877,155	847,910	29,245
Water distribution	349,428	225,167	171,683	53,484
Sewage collection	607,489	451,929	370,759	81,170
Sewage treatment	3,051,475	3,051,475	877,203	2,174,272
Administrative	647,592	703,219	178,803	524,416
Operating expenses before depreciation	5,533,726	5,308,945	2,446,358	2,862,587
Depreciation		331,119	436,189	(105,070)
Total operating expenses	5,533,726	5,640,064	2,882,547	2,757,517
Net operating income (loss)	(2,175,091)	(2,086,199)	285,632	2,371,831
Non-operating Revenues (Expenses):				
Interest revenue	25,147	25,147	37,454	12,307
Bond interest and fees		(197,418)	(124,658)	72,760
Total non-operating revenues (expenses)	25,147	(172,271)	(87,204)	85,067
Net income (loss) before contributions and operating transfers	(2,149,944)	(2,258,470)	198,428	2,456,898
Contributions			929	929
Transfers in	130,769			-0-
Transfers out	(410,575)	(419,678)	(369,238)	50,440
Change in net assets	(2,429,750)	(2,678,148)	(169,881)	2,508,267
Net assets, beginning	10,908,689	10,908,689	10,908,689	-0-
Net assets, ending	\$ 8,478,939	\$ 8,230,541	\$ 10,738,808	\$ 2,508,267

CITY OF CLUTE

Clute, Texas

SCHEDULE OF AD VALOREM TAX LEVIES AND COLLECTIONS

September 30, 2010

<u>Year of Tax Levy</u>	<u>Total Assessed Valuation</u>	<u>Tax Rate/\$100</u>	<u>Tax Levy</u>
2000 and Prior	\$ ---	\$ ---	\$ ---
2001	190,913,001	0.723	1,380,301
2002	199,501,660	0.723	1,442,397
2003	204,646,611	0.723	1,479,595
2004	207,001,936	0.723	1,496,624
2005	224,920,885	0.723	1,626,178
2006	237,057,953	0.723	1,713,929
2007	277,939,255	0.698	1,940,016
2008	285,658,246	0.693	1,970,417
2009	288,722,917	0.672	1,940,218

Taxes Receivable 10-01-09	Current Year Levy	Collections	Adjustments	Taxes Receivable 9-30-10
\$ 24,369	\$	\$ 2,137	\$(5,636)	\$ 16,596
3,290		520	(296)	2,474
3,574		644	(1,023)	1,907
9,064		1,033	(1,136)	6,895
7,521		1,230	(306)	5,985
8,223		3,271	(692)	4,260
8,271		3,271	(563)	4,437
20,921		10,508	(582)	9,831
55,028		36,693	(1,226)	17,109
	<u>1,940,218</u>	<u>2,039,574</u>	<u>188,592</u>	<u>89,236</u>
<u>\$ 140,261</u>	<u>\$ 1,940,218</u>	<u>\$ 2,098,881</u>	<u>\$ 177,132</u>	\$ 158,730

Less: Reserve for Uncollectible Taxes 56,152

Net Delinquent Taxes Receivable \$ 102,578

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