

**CITY OF
RICHLAND HILLS, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2011**

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CITY OF RICHLAND HILLS, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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INTRODUCTORY SECTION

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CITY OF RICHLAND HILLS, TEXAS

3200 DIANA DRIVE · RICHLAND HILLS, TX 76118

March 31, 2012

The Honorable Mayor and Members of the City Council
City of Richland Hills
Richland Hills, Texas

The Richland Hills City staff is pleased to submit the Comprehensive Annual Financial Report of the City of Richland Hills, Texas, for the fiscal year ended September 30, 2011. The purpose of the report is to provide the Council, managements, staff, public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

The report satisfies Chapter 103.001 of the Texas Local Government Code requiring annual audits of all municipalities. This report consists of management's representations concerning the finances of the City of Richland Hills. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Richland Hills has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Richland Hills' financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Richland Hills' comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City of Richland Hills' financial statements have been audited by Pattillo, Brown & Hill, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Richland Hills for the fiscal year ended September 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Richland Hills' financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is organized into three major sections: Introductory, Financial and Statistical. The Introductory Section contains a list of principal City Officials, an organizational chart of the City Government, and this letter of transmittal. The Financial Section includes the Management's Discussion and Analysis (MD&A), basic financial statements, and the opinion of the independent auditor and supplementary information. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The

Statistical Section, through the use of tables, presents comparative economic and financial data to give users of the report a perspective of the City's performance over a number of years.

The Reporting Entity

The City of Richland Hills, incorporated in 1950, is located in the middle of a major metropolitan area in north central part of the state. The City of Richland Hills currently occupies a land area of 3.9 square miles and serves a population of 8,132. The City of Richland Hills is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City of Richland Hills has operated under the council-manager form of government since 1985. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five other members. The governing Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's manager. The government's Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Council members serve two-year staggered terms with three Council members elected in odd-numbered years and the Mayor and two Council members elected in even-numbered years. The Mayor and Council members are elected from the City at large.

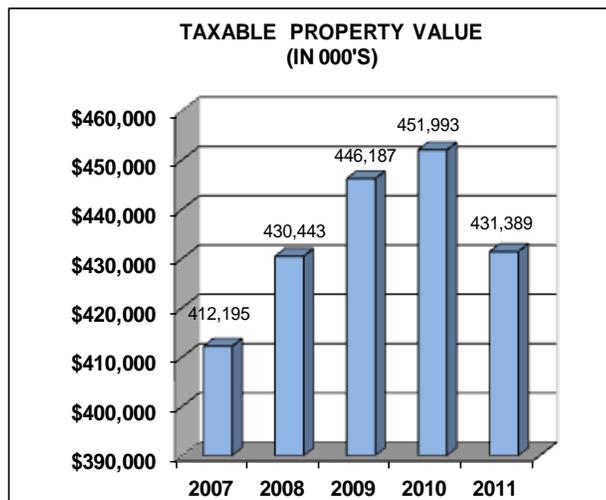
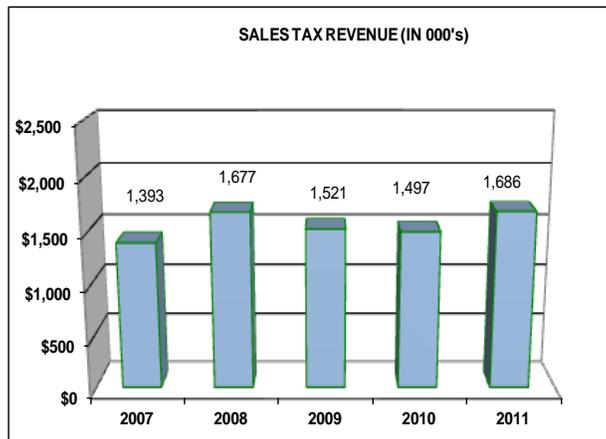
The City of Richland Hills provides a full range of municipal services, including general government, public safety (police, fire, emergency medical services, and animal services), streets and drainage, planning and zoning, code enforcement, library, and recreational activities and cultural events. Water and sanitation services are provided as a department of the City of Richland Hills and therefore have been included as an integral part of the City of Richland Hills' financial statements.

The annual budget serves as the foundation for the City of Richland Hills' financial planning and control. All departments of the City of Richland Hills are required to submit requests for appropriation to the government's manager in May of each year. The government's manager uses these requests as the starting point for developing a proposed budget. The government's manager then presents this proposed budget to the Council for review by at least 60 days prior to October 1. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than September 30, the close of the City of Richland Hills' fiscal year. The appropriated budget is prepared by fund, and department (e.g., police). The government's manager is authorized to transfer budgeted amounts between line items within any fund. Any revisions that alter the total expenditures of any fund require special approval of the governing Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report.

Economic Outlook and Financial Condition

The City of Richland Hills is located in Northeast Tarrant County, approximately 7 miles from downtown Fort Worth and approximately 30 miles from Dallas, Texas. Richland Hill's centralized location provides quick access to Fort Worth, Arlington, and Dallas areas and is approximately fifteen miles from DFW International Airport. The total land area is 3.9 square miles and is 98% developed.

In 2011, Richland Hill's experienced a 5% decline in assessed taxable value due to economic recession and the reappraisal of the residential housing base. The property tax base remains diverse with the top ten taxpayers accounting for 12.1% of the total assessed value. Property tax and sales tax revenue are the City's principal income sources. Property tax revenues account for 39.95% of budgeted revenues and sales tax account for 29.8% of budgeted revenues for the general fund. Sales tax revenue increased 12.6% from fiscal year 2010, which is indicative of an improving economy. Richland Hills continues to support an aggressive marketing campaign to attract commercial development in the City. New commercial projects in 2011 include Auto-Zone, an auto parts retailer, and Bartos Industries, HVAC retailer.



OTHER INFORMATION

Independent Audit

Article XII, Section 12.06 of the City Charter requires an annual audit by independent certified public accountants. The accounting firm of Pattillo, Brown & Hill, L.L.P. was selected by the City Council. The audit report will be available for public inspection and the original copy will be kept as a permanent record of the City.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for excellence in Financial Reporting to the City of Richland Hills for its comprehensive annual financial report for the fiscal year ended September 30, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

The preparation of this report could not have been accomplished without the cooperation of City employees throughout the organization. Sincere appreciation is also expressed to the Mayor and City Council for their continued interest and support in the conduct of the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Respectfully submitted,



James W. Quin
City Manager



Barbara Mann
Finance/Accounting Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Richland Hills
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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



Linda C. Davidson

President

Jeffrey R. Egan

Executive Director

CITY OF RICHLAND HILLS, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2011

CITY COUNCIL

David Ragan, Mayor

Roland Goveas, Place 1

Kenney Davis, Place 2

Robert DeSoto, Place 3

Ricky Head, Place 4

Edward Lopez, Mayor Pro Tem, Place 5

CITY STAFF

James W. Quin, City Manager

Barbara Childress, Chief of Police

William Bell, Fire Chief

Michael Barnes, Director of Public Works

Theresa Tillery, Library Director

Denice Thomas, Director of Planning and Community Development

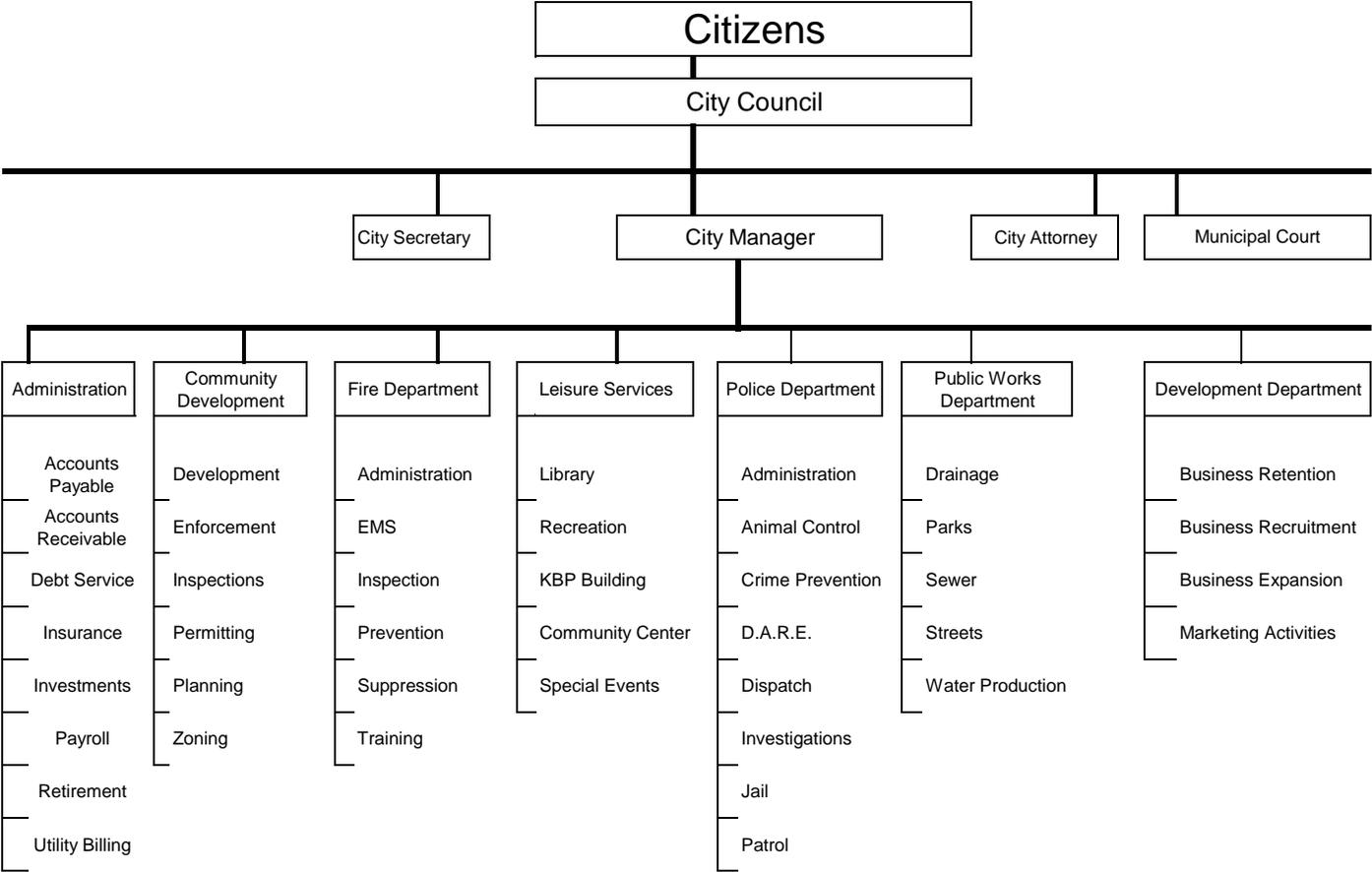
Linda Cantu, City Secretary

Alicia St. Cyr, Municipal Court Clerk

Liz Kennedy, Administrative Assistant

Barbara J. Mann, Finance/Accounting Manager

CITY OF RICHLAND HILLS ORGANIZATION CHART



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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Richland Hills, 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 Richland Hills, Texas (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Richland Hills, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richland Hills, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2012, 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 conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 16 and pages 58 through 60, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the financial statements 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 of Richland Hills, Texas' basic financial statements as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was 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.

Pattillo, Brown & Hill, L.L.P.

March 31, 2012

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Richland Hills, Texas, we offer readers of the City of Richland Hills' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$20,349,465 (net assets) compared to \$19,862,212 for the prior year. Of this amount, \$3,735,637 represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$753,353. The City's governmental activities net assets decreased by \$556,158 and the business-type activities net assets increased by \$1,309,511.
- As of the close of the current year, the City of Richland Hills' governmental funds reported combined ending fund balances of \$3,965,365 compared to \$3,983,133 for the prior year. Approximately \$1,496,041 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current year, unassigned fund balance for the General Fund was \$1,496,041, or 28% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, legislative, municipal court, police, fire and ambulance, code enforcement, animal control, clean city, streets and highways, library, community center, parks and beautification and economic development. The business-type activities of the City include water production and distribution, sewer collection and treatment and drainage utility.

The government-wide financial statements can be found on pages 17 through 19 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. Unlike the government-wide financial statements, however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains 12 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 Fund, which is considered a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Proprietary funds. Proprietary funds can be further classified into two different types of funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer operations and drainage utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and Drainage Utility Fund.

The proprietary fund financial statements can be found on pages 24 through 27 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements. The notes to the financial statements can be found on pages 28 through 57 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. The required supplementary information can be found on pages 58 through 60 of this report.

The individual major governmental funds and combining and individual nonmajor governmental funds are presented immediately following the required supplementary information. These statements can be found on pages 61 through 74 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$20,349,465 as of September 30, 2011.

The largest portion of the City's net assets (74%) reflects its investment in capital assets (e.g. land, improvements other than buildings, buildings, machinery and equipment, streets and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services 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 capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,735,637) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental activities.

Following are summaries of the City's statement of net assets and statement of activities.

Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,424,406	\$ 5,377,029	\$ 5,076,255	\$ 4,774,756	\$ 10,500,661	\$ 10,151,785
Capital assets	<u>9,273,044</u>	<u>9,628,829</u>	<u>11,907,033</u>	<u>11,782,329</u>	<u>21,180,077</u>	<u>21,411,158</u>
Total assets	<u>14,697,450</u>	<u>15,005,858</u>	<u>16,983,288</u>	<u>16,557,085</u>	<u>31,680,738</u>	<u>31,562,943</u>
Current liabilities	570,292	459,471	459,320	491,253	1,029,612	950,724
Long-term liabilities	<u>2,204,069</u>	<u>1,801,040</u>	<u>8,097,592</u>	<u>8,948,967</u>	<u>10,301,661</u>	<u>10,750,007</u>
Total liabilities	<u>2,774,361</u>	<u>2,260,511</u>	<u>8,556,912</u>	<u>9,440,220</u>	<u>11,331,273</u>	<u>11,700,731</u>
Net assets:						
Invested in capital assets, net of related debt	7,815,576	8,215,829	7,255,716	6,194,852	15,071,292	14,410,681
Restricted	1,542,536	375,753	-	1,212,169	1,542,536	1,587,922
Unrestricted	<u>2,564,977</u>	<u>4,153,765</u>	<u>1,170,660</u>	<u>(290,156)</u>	<u>3,735,637</u>	<u>3,863,609</u>
Total net assets	<u>\$ 11,923,089</u>	<u>\$ 12,745,347</u>	<u>\$ 8,426,376</u>	<u>\$ 7,116,865</u>	<u>\$ 20,349,465</u>	<u>\$ 19,862,212</u>

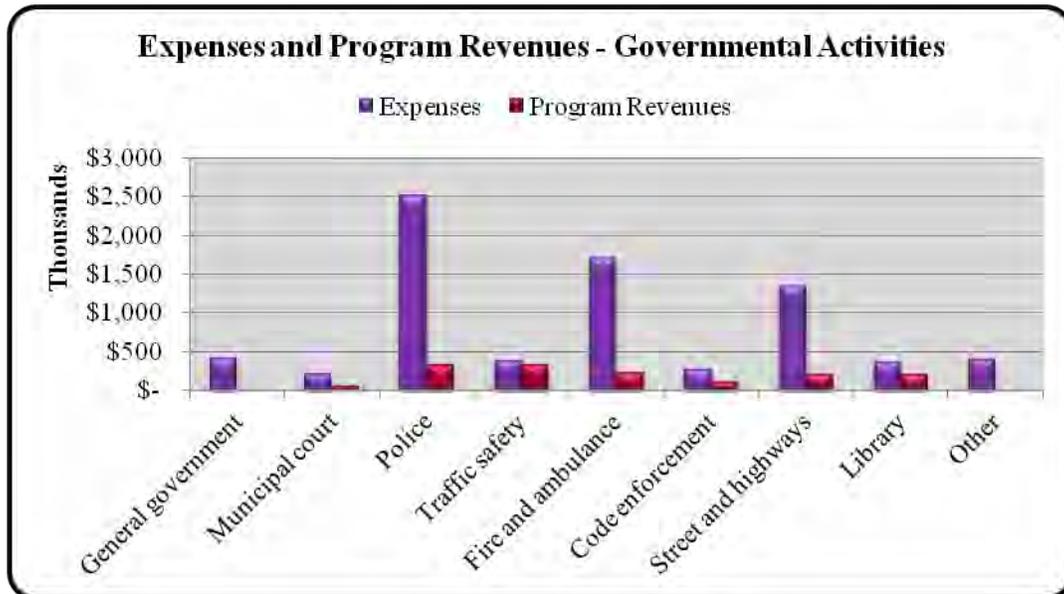
Changes in Net Assets

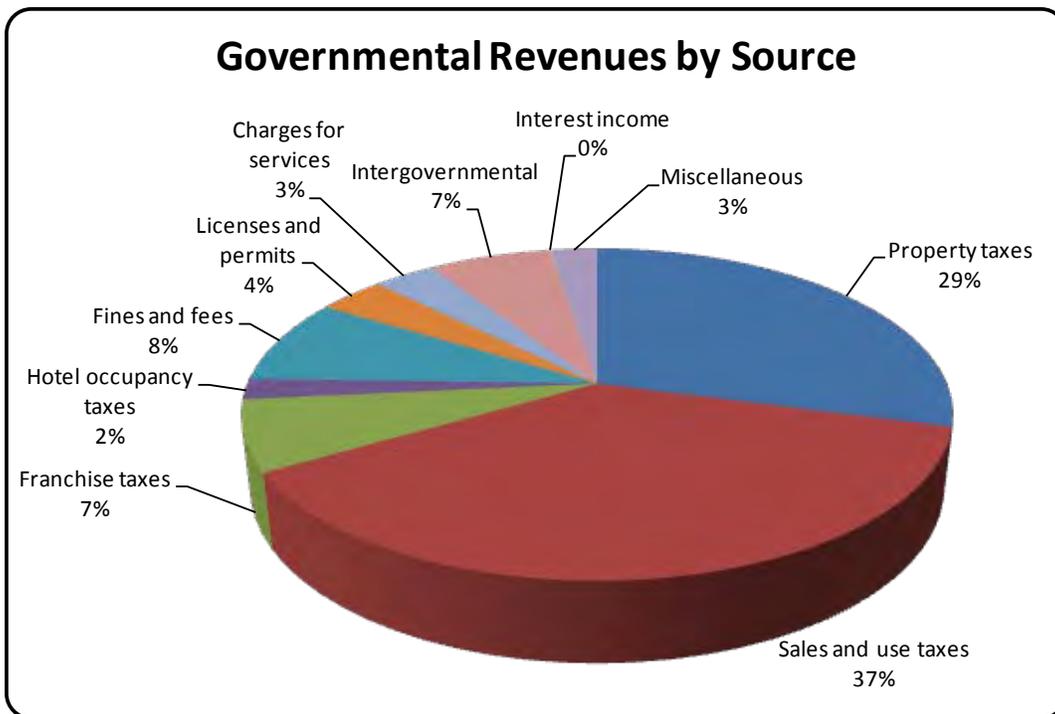
	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,309,146	\$ 1,006,141	\$ 5,283,041	\$ 4,004,950	\$ 6,592,187	\$ 5,011,091
Operating grants and contributions	268,290	230,056	-	-	268,290	230,056
Capital grants and contributions	393,993	226,239	-	-	393,993	226,239
General revenues:						
Property taxes	2,197,570	2,119,563	-	-	2,197,570	2,119,563
Sales taxes	2,593,770	2,210,327	-	-	-	-
Franchise taxes	509,015	480,222	-	-	509,015	480,222
Hotel occupancy taxes	152,597	121,561	-	-	152,597	121,561
Investment earnings	3,806	3,925	6,347	3,375	10,153	7,300
Miscellaneous	97,145	151,306	5,728	-	102,873	151,306
Transfers	(300,788)	(16,198)	300,788	16,198	-	-
Total revenues	<u>7,224,544</u>	<u>6,533,142</u>	<u>5,595,904</u>	<u>4,024,523</u>	<u>12,820,448</u>	<u>10,557,665</u>
Expenses:						
General government	452,544	409,627	-	-	452,544	409,627
Legislative	-	76,361	-	-	-	76,361
Municipal court	-	217,429	-	-	-	217,429
Police	-	2,513,129	-	-	-	2,513,129
Traffic safety	-	386,093	-	-	-	386,093
Fire and ambulance	-	1,708,179	-	-	-	1,708,179
Code enforcement	-	270,688	-	-	-	270,688
Animal control	-	97,350	-	-	-	97,350
Keep Richland Hills Beautiful	-	20,309	-	-	-	20,309
Street and highways	-	1,339,330	-	-	-	1,339,330
Library	-	364,142	-	-	-	364,142
Community center	-	46,852	-	-	-	46,852
Parks and beautification	21,182	26,670	-	-	-	26,670
Economic development	-	59,261	-	-	-	59,261
Public safety	5,032,257	-	-	-	-	-
Public works	1,151,899	-	-	-	-	-
Culture and recreation	453,741	-	-	-	-	-
Community development	612,100	-	-	-	612,100	-
Interest on long-term debt	56,979	74,760	-	-	-	74,760
Water production and distribution	-	-	-	1,903,193	-	1,903,193
Sewer collection and treatment	-	-	-	2,001,652	-	2,001,652
Water sewer	-	-	3,845,749	-	3,845,749	-
Drainage utility	-	-	440,644	153,742	440,644	153,742
Total expenses	<u>7,780,702</u>	<u>7,610,180</u>	<u>4,286,393</u>	<u>4,058,587</u>	<u>12,067,095</u>	<u>11,668,767</u>
Increase (decrease) in net assets	(556,158)	(1,077,038)	1,309,511	(34,064)	753,353	(1,111,102)
Net assets, beginning	12,745,347	13,822,385	7,116,865	7,150,929	19,862,212	20,973,314
Change in accounting estimate	(266,100)	-	-	-	(266,100)	-
Net assets, beginning, as restated	<u>12,479,247</u>	<u>13,822,385</u>	<u>7,116,865</u>	<u>7,150,929</u>	<u>19,596,112</u>	<u>20,973,314</u>
Net assets, ending	<u>\$ 11,923,089</u>	<u>\$ 12,745,347</u>	<u>\$ 8,426,376</u>	<u>\$ 7,116,865</u>	<u>\$ 20,349,465</u>	<u>\$ 19,862,212</u>

Governmental activities. Governmental activities decreased the City’s net assets by \$556,158 in the current year compared with a \$1,077,038 decrease in the prior year. Total governmental activities revenues increased \$691,402 (11%) to \$7,224,544. Total governmental activities expenses increased \$170,522 (2%) from the prior year. Key elements of these changes are as follows:

- The Capital Grant Safe Routes to School Non Infrastructure program started in 2011. Total expenses for this program totaled \$268,824.
- Property tax revenue increased due to a rate increase from \$.473042 in 2010 to \$.518012 in 2011.
- Franchise fees associated with electric and gas increased during 2011.
- Municipal Court fine revenue increased from \$211,168 to \$257,808 (a \$46,640, or 22% increase). This increase can be attributed to an increase in the number of citations issued during the year.
- Licenses and permit revenue increased due to the issuance of gas drilling permits in the amount of \$157,448.

Below are two graphs summarizing governmental activities revenues and expenses:

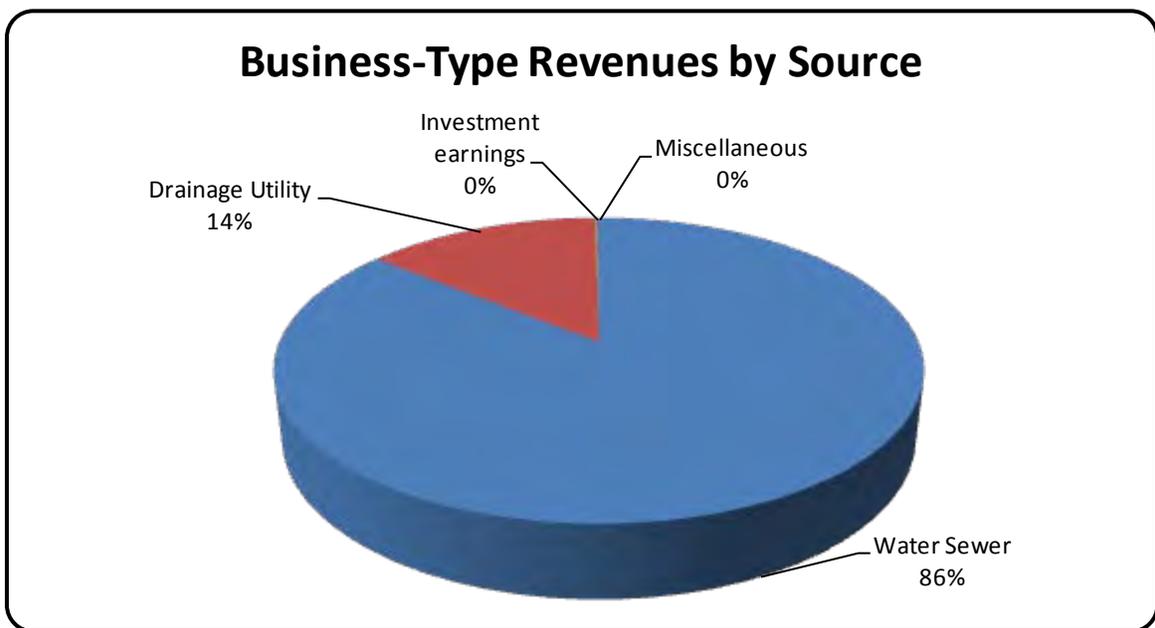
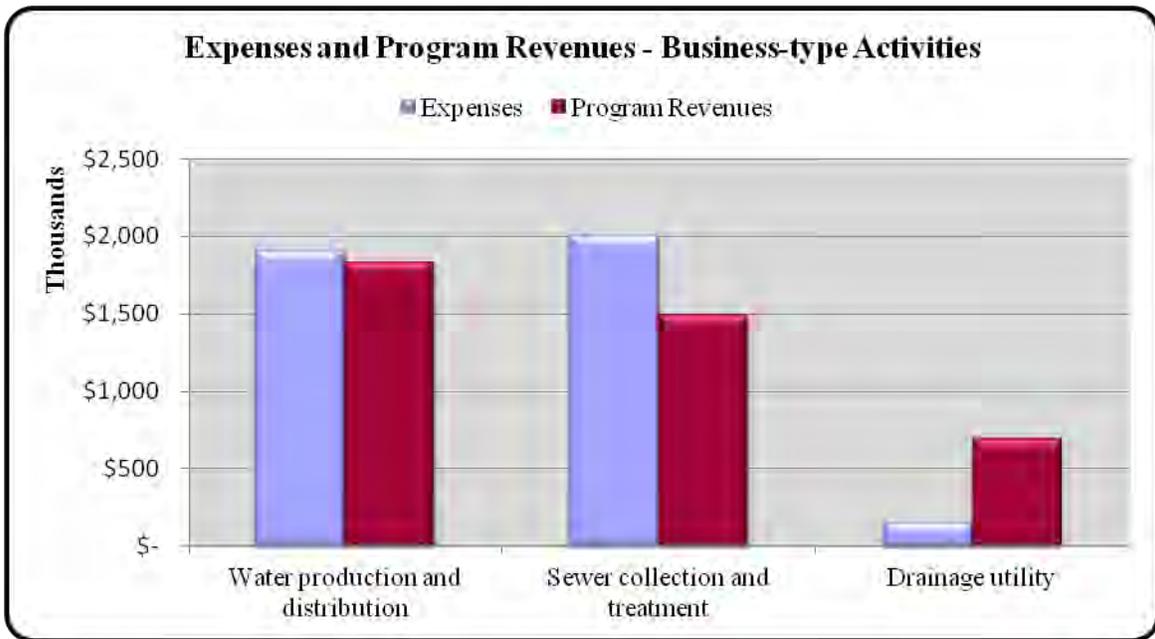




Business-type activities. Business-type activities increased the City’s net assets by \$1,309,511 in the current year compared to a decrease in net assets of \$34,064 in the prior year. The business-type activities total revenues increased \$1,571,381 (39%) to \$5,595,904, and total expenses increased \$227,806 (6%) to \$4,286,393. Key elements of these changes are as follows:

- Charges for services increased during the \$1,278,091 due to an increase in water rates and wastewater rates. These rates increased 9.99% and 79.5% respectively. The increases went into effect on October 1, 2010.
- The final payment for the Fort Worth Water Department payment plan was paid in September, 2011.
- The water purchased from the City of Fort Worth, Texas increased \$67,555 due to an increase in water rates and an increase in the amount of water purchased. Water purchased in 2010 totaled 274,085,000 gallons where the 2011 total reached 311,825,300 gallons.
- Fort Worth wastewater charges decreased from \$636,353 to \$338,376. Charges from the City of Hurst decreased from \$149,123 to \$87,093.
- Drainage System expense increased due to drainage system maintenance and improvements and debt service payments for the 2010 debt issue.

Below are two graphs summarizing business-type activities revenue and expense:



Financial Analysis of the Government's Funds

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

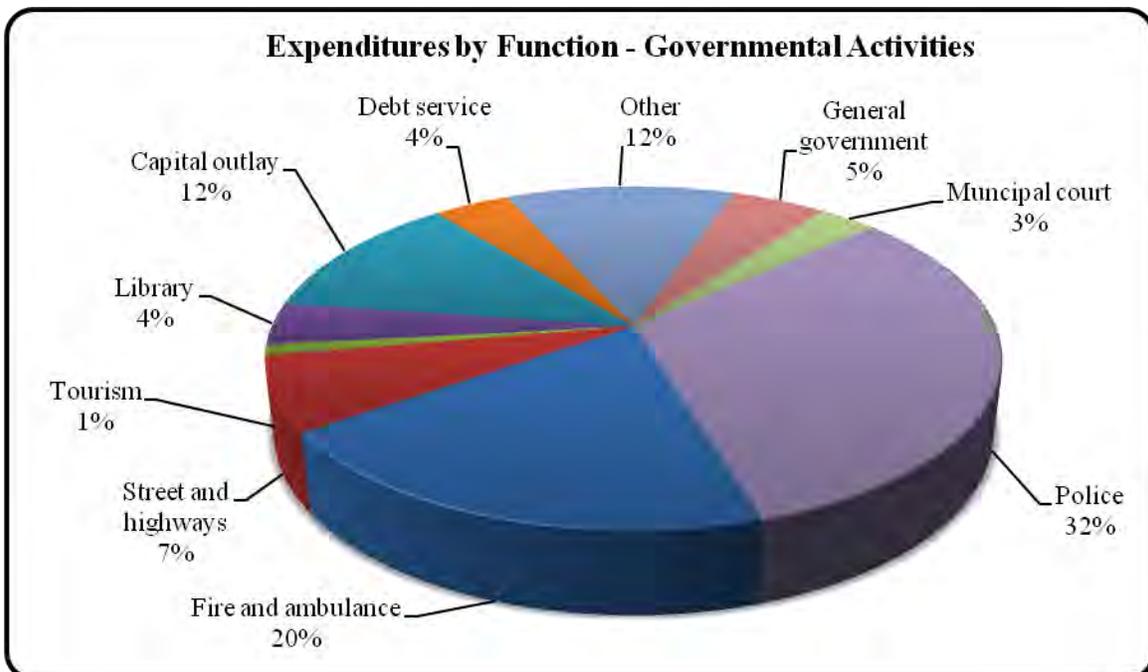
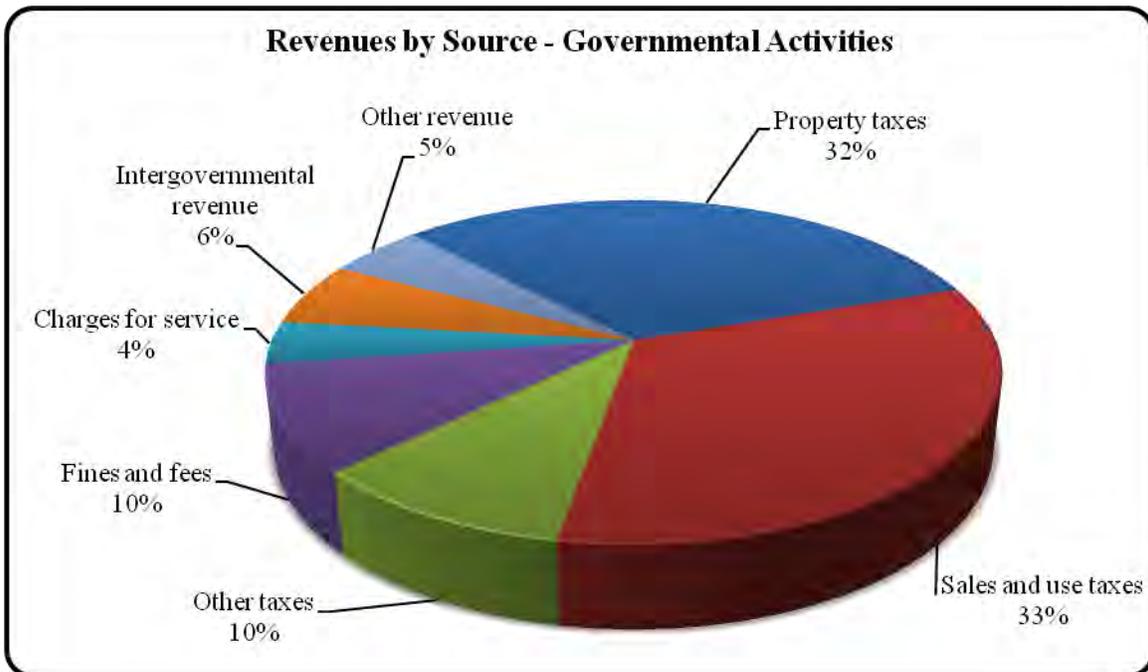
Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure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

At year-end, the City's governmental funds reported combined ending fund balances of \$3,965,365. \$1,496,041 (38%) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted or committed to indicate that it is not available for new spending because of external and internal restrictions on its use.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,496,041. Fund balance of the General Fund increased \$251,696 compared to a decrease of \$492,327 in the prior year. Key factors in this increase are as follows:

- Revenues increased \$575,631 (12%). General Fund property taxes increased \$75,441 due to a \$23,457,372 increase in assessed property tax values and a tax rate increase of \$0.04497 per \$100 assessed value. Sales and franchise taxes increased \$406,349. Fines and fees revenue increased \$42,310 (13%) because tickets issued increased from the prior year. Intergovernmental revenue decreased \$120,648.
- Expenditures only increased \$27,547 (0.5%).

Below are two graphs summarizing governmental fund revenue and expenditures.



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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$18,078 and those for the Drainage Utility Fund amounted to \$1,152,582. The total change in net assets for both funds was \$1,009,832 and \$299,679, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended its General Fund budget twice. Differences between the original budget and the final budget totaled a \$1,601 decrease in appropriations.

During the year, expenditures were more than budgetary estimates, with the general government, culture and recreation, community development, and capital outlay expenditures exceeding budgeted amounts.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$21,180,077 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer systems, improvements other than buildings, machinery and equipment, and infrastructure.

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

Governmental Activities:

- Concrete walking trail at Rosebud Park, \$50,549
- Started renovation of library building project, \$87,620
- 2011 Dodge Ambulance, \$161,775
- (2) 2011 Chevrolet Silverado
- AWE Early Literacy Station, \$5,700
- School Zone Lights, \$22,852
- Fire Department Overhead Garage Doors, \$15,506
- Amkus Spreader, Power Unit, \$16,643
- Lucas 2 Chest Compression System, \$14,648
- LP15 Monitor Defib CPR, \$36,266
- Lights Sirens and Equipment for Emergency Vehicles, \$8,621

Business-type Activities:

- Loader Extender, \$69,500
- 2011 Chevrolet Silverado, \$22,479
- SCAG Zero Turn Mower, \$8,809
- 2011 Dodge Ram 3500, \$30,002

**City of Richland Hills' Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 325,343	\$ 325,343	\$ 256,267	\$ 256,267	\$ 581,610	\$ 581,610
Construction in progress	366,034	366,034	822,974	310,204	1,189,008	676,238
Improvements other than buildings	191,878	191,878	152,533	157,589	344,411	349,467
Buildings	1,102,813	1,102,813	9,634	11,978	1,112,447	1,114,791
Water and sewer system	-	-	10,445,698	10,854,884	10,445,698	10,854,884
Machinery and equipment	1,042,891	1,042,891	219,927	191,407	1,262,818	1,234,298
Infrastructure	<u>6,244,085</u>	<u>6,244,085</u>	<u>-</u>	<u>-</u>	<u>6,244,085</u>	<u>6,244,085</u>
Total	<u>\$ 9,273,044</u>	<u>\$ 9,273,044</u>	<u>\$ 11,907,033</u>	<u>\$ 11,782,329</u>	<u>\$ 21,180,077</u>	<u>\$ 21,055,373</u>

Additional information on the City's capital assets can be found in Note F on pages 42 – 43 of this report.

Long-term Debt

City of Richland Hills' Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Certificates of obligation	\$ 580,000	\$ 680,000	\$ 6,360,000	\$ 6,710,000	\$ 6,940,000	\$ 7,390,000
Tax notes	77,000	278,000	-	-	77,000	278,000
Contractual obligation	898,000	455,000	-	-	898,000	455,000
Capital leases payable	-	-	255,780	300,521	255,780	300,521
Revenue bonds	-	-	1,340,000	1,435,000	1,340,000	1,435,000
Note payable - wastewater charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,152</u>	<u>-</u>	<u>375,152</u>
Total	<u>\$ 1,555,000</u>	<u>\$ 1,413,000</u>	<u>\$ 7,955,780</u>	<u>\$ 8,820,673</u>	<u>\$ 9,510,780</u>	<u>\$ 10,233,673</u>

A series of contractual obligations totaling \$473,000 dated February 1, 2011, were issued for the purpose of paying all or a portion of the Issuer's contractual obligations to be incurred in connection with the acquisition or purchase of personal property, in accordance with the provisions of the Public Property Finance Act, and to pay the costs incurred in connection with the issuance of the contractual obligation. The interest rate is 3.64% and the obligation matures through August 15, 2016. Principal and interest are payable from ad valorem taxes. The balance of this obligation at September 30, 2011, is \$473,000.

The City's outstanding debt continues to have favorable ratings. The ratings are as follows:

	<u>Moody's Investor Service</u>	<u>Standard & Poor's</u>
Combination Tax and Revenue Certificates of Obligation, Series 2001	A3	
Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 1998	A3	
Waterworks and Sewer System Revenue Bonds, Series 2002	A3	
Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 2007	A3	
Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 2010		AA-

No direct funded debt limitation is imposed on the City under current state law or the City's Home Rule Charter. However, bond covenant requirements of the revenue bonds require that the City maintain a coverage ratio of 1.25 times the annual debt service. The measure of adequacy of service liability of this debt is the revenue bond coverage factor (net revenues available for debt service divided by the current debt service requirements). For the current fiscal year, this ratio is measured at 1.69, meaning sufficient net revenues were available to comply with this bond covenant. Comparative data for the Water and Sewer Fund for the past three fiscal years is presented in the following schedule.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross revenues	\$ 4,552,311	\$ 3,316,466	\$ 3,175,814
Direct operating expenses	3,092,724	3,158,012	2,865,188
Net revenue available for debt	1,459,587	158,454	310,626
Debt service	675,146	670,610	665,050
Debt coverage ratio (Revenue available for debt service (divided by current year debt service))	2.16	0.24	0.47

More detailed information about the City's debt is presented in Note III.F. in the financial statements.

Economic Factors and Next Year's Budgets and Rates

The property tax rate for the City was increased \$.518,012 to \$.551757 per \$100 taxable value for the 2012 fiscal year. The taxable assessed value for the 2012 fiscal year decreased approximately \$431 million to \$400 million. General Fund property tax revenue is expected to remain approximately the same.

The most significant budgeted increase in General Fund revenues is approximately \$38,938 in fines and fees.

Total expenditures for the General Fund are budgeted to decrease by approximately \$106,410 from 2011 actual expenditures. The largest decrease is due to a shared expense agreement for dispatch and jail services with the cities of North Richland Hills, Watauga and Haltom City.

Wastewater billing revenues are expected to decrease \$434,576 during fiscal year 2011-2012. This is largely due to a 24.5% reduction in wastewater rates.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 3200 Diana Drive, Richland Hills, Texas 76118.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF RICHLAND HILLS, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,434,650	\$ 1,014,725	\$ 3,449,375
Investments	-	1,076,270	1,076,270
Receivables, net of allowance for uncollectibles			
Taxes	370,364	-	370,364
Accounts	563,476	728,773	1,292,249
Intergovernmental	809,066	-	809,066
Internal balances	371,363	(371,363)	-
Inventories	-	23,659	23,659
Restricted assets:			
Cash and cash equivalents	-	1,304,535	1,304,535
Investments	-	1,999,928	1,999,928
Internal balances due in more than one year	830,477	(830,477)	-
Deferred charges	45,010	130,205	175,215
Capital assets:			
Land	325,343	256,267	581,610
Construction in progress	366,034	822,974	1,189,008
Buildings	2,199,302	174,022	2,373,324
Improvements other than buildings	1,002,066	182,792	1,184,858
Water and sewer systems	-	16,190,188	16,190,188
Machinery and equipment	3,913,366	1,166,604	5,079,970
Infrastructure	19,620,330	-	19,620,330
Less: accumulated depreciation	(18,153,397)	(6,885,814)	(25,039,211)
Total capital assets	<u>9,273,044</u>	<u>11,907,033</u>	<u>21,180,077</u>
Total assets	<u>14,697,450</u>	<u>16,983,288</u>	<u>31,680,738</u>
LIABILITIES			
Accounts payable	429,787	277,580	707,367
Accrued liabilities	103,861	29,857	
Unearned revenue	26,470	-	26,470
Current liabilities payable from restricted assets:			
Interest payable	10,174	47,877	58,051
Customer deposits	-	104,006	104,006
Noncurrent liabilities:			
Due within one year - unrestricted	371,135	14,844	385,979
Due within one year - restricted	-	556,754	556,754
Due in more than one year	<u>1,832,934</u>	<u>7,525,994</u>	<u>9,358,928</u>
Total liabilities	<u>2,774,361</u>	<u>8,556,912</u>	<u>11,331,273</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,815,576	7,255,716	15,071,292
Restricted for:			
Debt service	116,955	-	116,955
Public works	169,408	-	169,408
Public safety	742,940	-	742,940
Economic development	513,233	-	513,233
Unrestricted	<u>2,564,977</u>	<u>1,170,660</u>	<u>3,735,637</u>
Total net assets	<u>\$ 11,923,089</u>	<u>\$ 8,426,376</u>	<u>\$ 20,349,465</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 452,544	\$ 279,595	\$ 30,000	\$ -
Public safety	5,032,257	972,419	97,660	-
Public works	1,151,899	34,245	97,349	393,993
Culture and Recreation	453,741	-	21,948	-
Parks and beautification	21,182	-	-	-
Community development	612,100	22,887	21,333	-
Interest on long-term debt	56,979	-	-	-
Total governmental activities	<u>7,780,702</u>	<u>1,309,146</u>	<u>268,290</u>	<u>393,993</u>
Business-type activities				
Water sewer	3,845,749	4,544,897	-	-
Drainage utility	440,644	738,144	-	-
Total business-type activities	<u>4,286,393</u>	<u>5,283,041</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 12,067,095</u>	<u>\$ 6,592,187</u>	<u>\$ 268,290</u>	<u>\$ 393,993</u>

General revenues:

Taxes

Property, levied for general purposes

Property, levied for debt service

Sales

Franchise

Hotel occupancy

Investment earnings

Miscellaneous revenues

Transfers

Total general revenues and transfers

Changes in net assets

Net assets, beginning

Change in accounting estimate

Net assets, beginning, as restated

Net assets, ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$(142,949)	\$ -	\$(142,949)
(3,962,178)	-	(3,962,178)
(626,312)	-	(626,312)
(431,793)	-	(431,793)
(21,182)	-	(21,182)
(567,880)	-	(567,880)
(56,979)	-	(56,979)
(5,809,273)	-	(5,809,273)
-	699,148	699,148
-	297,500	297,500
-	996,648	996,648
(5,809,273)	996,648	(4,812,625)
1,981,407	-	1,981,407
216,163	-	216,163
2,593,770	-	2,593,770
509,015	-	509,015
152,597	-	152,597
3,806	6,347	10,153
97,145	5,728	102,873
(300,788)	300,788	-
5,253,115	312,863	5,565,978
(556,158)	1,309,511	753,353
12,745,347	7,116,865	19,862,212
(266,100)	-	(266,100)
12,479,247	7,116,865	19,596,112
\$ 11,923,089	\$ 8,426,376	\$ 20,349,465

CITY OF RICHLAND HILLS, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 551,449	\$ 1,318,850	\$ 1,870,299
Investments	564,351	-	564,351
Receivables (net of allowances for uncollectibles)			
Taxes	334,481	35,883	370,364
Accounts	487,011	76,465	563,476
Intergovernmental	414,307	394,759	809,066
Due from other funds	477,738	123,255	600,993
Advances to other funds	<u>830,477</u>	<u>-</u>	<u>830,477</u>
 Total assets	 <u>\$ 3,659,814</u>	 <u>\$ 1,949,212</u>	 <u>\$ 5,609,026</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 277,093	\$ 152,694	\$ 429,787
Accrued liabilities	103,861	-	103,861
Due to other funds	130,850	98,780	229,630
Deferred revenue	<u>821,492</u>	<u>58,891</u>	<u>880,383</u>
Total liabilities	<u>1,333,296</u>	<u>310,365</u>	<u>1,643,661</u>
Fund balance:			
Nonspendable	830,477	-	830,477
Restricted	-	1,615,422	1,615,422
Assigned	-	23,425	23,425
Unassigned	<u>1,496,041</u>	<u>-</u>	<u>1,496,041</u>
Total fund balance	<u>2,326,518</u>	<u>1,638,847</u>	<u>3,965,365</u>
 Total liabilities and fund balance	 <u>\$ 3,659,814</u>	 <u>\$ 1,949,212</u>	 <u>\$ 5,609,026</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Total fund balances - governmental funds	\$ 3,965,365
Capital assets used in governmental activities are not financial resources and therefore are reported in the governmental funds.	9,273,044
Long-term liabilities, including bonds payable (net of unamortized costs), are not due and payable in the current period and, therefore, are not reported in the funds.	(2,169,233)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>853,913</u>
Net assets of governmental activities	<u>\$ 11,923,089</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
General property	\$ 1,978,741	\$ 216,163	\$ 2,194,904
Sales and use	1,904,776	913,802	2,818,578
Franchise	517,321	-	517,321
Hotel occupancy	-	152,597	152,597
Fines and fees	370,819	252,844	623,663
Licenses and permits	274,680	-	274,680
Charges for services	253,010	-	253,010
Intergovernmental	105,961	393,993	499,954
Interest income	1,600	2,206	3,806
Miscellaneous	<u>94,479</u>	<u>97,349</u>	<u>191,828</u>
Total revenues	<u>5,501,387</u>	<u>2,028,954</u>	<u>7,530,341</u>
EXPENDITURES			
General government	424,446	-	424,446
Public safety	3,742,173	833,508	4,575,681
Public works	266,913	9,338	276,251
Culture and recreation	382,008	-	382,008
Parks and beautification	10,378	-	10,378
Community development	347,936	244,506	592,442
Capital outlay	149,192	1,086,608	1,235,800
Debt service:			
Principal	-	331,000	331,000
Interest and fiscal charges	<u>-</u>	<u>83,958</u>	<u>83,958</u>
Total expenditures	<u>5,323,046</u>	<u>2,588,918</u>	<u>7,911,964</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>178,341</u>	<u>(559,964)</u>	<u>(381,623)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	23,209	17,500	40,709
Proceeds from bond issuance	-	473,000	473,000
Proceeds from insurance recovery	50,146	-	50,146
Transfers in	-	133,006	133,006
Transfers out	<u>-</u>	<u>(333,006)</u>	<u>(333,006)</u>
Total other financing sources (uses)	<u>73,355</u>	<u>290,500</u>	<u>363,855</u>
NET CHANGE IN FUND BALANCES	251,696	(269,464)	(17,768)
FUND BALANCES, BEGINNING	<u>2,074,822</u>	<u>1,908,311</u>	<u>3,983,133</u>
FUND BALANCES, ENDING	<u>\$ 2,326,518</u>	<u>\$ 1,638,847</u>	<u>\$ 3,965,365</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$(17,768)

Governmental funds report all capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This reconciling item represents the amount by which capital outlay exceeded depreciation in the current period. (89,685)

The issuance of long-term debt (e.g., bonds, notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This reconciling item represents the net effect of these differences in the treatment of long-term debt and related items. (112,686)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This reconciling item reflects the net of such expenses. (263,364)

Some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds. (72,655)

Change in net assets of governmental activities - statement of activities \$(556,158)

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Water and Sewer	Drainage Utility	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 897,766	\$ 116,959	\$ 1,014,725
Investments	376,240	700,030	1,076,270
Accounts receivable, net of allowances	728,773	-	728,773
Due from other funds	2,482	377,004	379,486
Inventory	23,659	-	23,659
Restricted assets			
Cash and cash equivalents	1,092,518	212,017	1,304,535
Investments	-	1,999,928	1,999,928
Total current assets	3,121,438	3,405,938	6,527,376
Noncurrent assets			
Deferred charges	83,180	47,025	130,205
Capital assets:			
Land	207,267	49,000	256,267
Construction in progress	-	822,974	822,974
Buildings	174,022	-	174,022
Improvements other than buildings	22,704	160,088	182,792
Waterworks and sewer system	16,190,188	-	16,190,188
Equipment	1,059,743	106,861	1,166,604
Less: accumulated depreciation	(6,803,970)	(81,844)	(6,885,814)
Total noncurrent assets	10,933,134	1,104,104	12,037,238
Total assets	\$ 14,054,572	\$ 4,510,042	\$ 18,564,614
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 214,658	\$ 62,922	\$ 277,580
Accrued liabilities	26,423	3,434	29,857
Due to other funds	713,371	4,822	718,193
Compensated absences payable	14,844	-	14,844
Current liabilities payable from restricted assets:			
Current portion of long-term debt	456,754	100,000	556,754
Interest payable	35,990	11,887	47,877
Due to other funds	32,656	-	32,656
Customer deposits payable	104,006	-	104,006
Total current liabilities	1,598,702	183,065	1,781,767
Noncurrent liabilities:			
Advances from other funds	830,477	-	830,477
Compensated absences payable	59,375	-	59,375
Net pension obligation	62,222	5,371	67,593
Capital leases payable	209,026	-	209,026
Revenue bonds payable	4,590,000	2,600,000	7,190,000
Total noncurrent liabilities	5,751,100	2,605,371	8,356,471
Total liabilities	7,349,802	2,788,436	10,138,238
NET ASSETS			
Investment in capital assets, net of debt	6,686,692	569,024	7,255,716
Unrestricted	18,078	1,152,582	1,170,660
Total net assets	\$ 6,704,770	\$ 1,721,606	\$ 8,426,376

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 4,544,897	\$ 738,144	\$ 5,283,041
Miscellaneous	<u>5,728</u>	<u>-</u>	<u>5,728</u>
Total operating revenues	<u>4,550,625</u>	<u>738,144</u>	<u>5,288,769</u>
OPERATING EXPENSES			
Personnel services	1,119,578	147,371	1,266,949
Contractual services	414,473	31,449	445,922
Repairs and maintenance	337,092	54,197	391,289
Other supplies and expenses	1,221,681	97,011	1,318,692
Depreciation	<u>460,460</u>	<u>13,663</u>	<u>474,123</u>
Total operating expenses	<u>3,553,284</u>	<u>343,691</u>	<u>3,896,975</u>
OPERATING INCOME	<u>997,341</u>	<u>394,453</u>	<u>1,391,794</u>
NONOPERATING REVENUES AND EXPENSES			
Interest and investment income	1,686	4,661	6,347
Interest expense and fiscal charges	<u>(292,465)</u>	<u>(96,953)</u>	<u>(389,418)</u>
Total nonoperating revenues and expenses	<u>(290,779)</u>	<u>(92,292)</u>	<u>(383,071)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS			
	<u>706,562</u>	<u>302,161</u>	<u>1,008,723</u>
Capital contributions	100,788	-	100,788
Transfers in	200,000	-	200,000
Transfers out	<u>2,482</u>	<u>(2,482)</u>	<u>-</u>
CHANGE IN NET ASSETS	1,009,832	299,679	1,309,511
NET ASSETS, BEGINNING	<u>5,694,938</u>	<u>1,421,927</u>	<u>7,116,865</u>
NET ASSETS, ENDING	<u>\$ 6,704,770</u>	<u>\$ 1,721,606</u>	<u>\$ 8,426,376</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 4,473,427	\$ 738,144	\$ 5,211,571
Cash paid to suppliers for goods and services	(1,103,211)	(143,814)	(1,247,025)
Cash paid to employees for services	(2,015,076)	(148,925)	(2,164,001)
Net cash provided by operating activities	<u>1,355,140</u>	<u>445,405</u>	<u>1,800,545</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	478,388	-	478,388
Cash paid to other funds	(48,267)	(234,853)	(283,120)
Transfers from other funds	200,000	-	200,000
Transfers to other funds	<u>2,482</u>	<u>(2,482)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>632,603</u>	<u>(237,335)</u>	<u>395,268</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal repayments on debt	(814,894)	(50,000)	(864,894)
Interest and fiscal charges on debt	(237,096)	(140,274)	(377,370)
Proceeds from sale of capital assets	<u>14,731</u>	<u>(512,770)</u>	<u>(498,039)</u>
Net cash flows used by capital and related financing activities	<u>(1,037,259)</u>	<u>(703,044)</u>	<u>(1,740,303)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments	699,806	198,142	897,948
Earnings on investments	<u>1,686</u>	<u>4,661</u>	<u>6,347</u>
Net cash provided by investing activities	<u>701,492</u>	<u>202,803</u>	<u>904,295</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,651,976	(292,171)	1,359,805
CASH AND CASH EQUIVALENTS, BEGINNING	<u>338,308</u>	<u>621,147</u>	<u>959,455</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,990,284</u>	<u>\$ 328,976</u>	<u>\$ 2,319,260</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS			
Cash and cash equivalents	\$ 897,766	\$ 116,959	\$ 1,014,725
Restricted cash	<u>1,092,518</u>	<u>212,017</u>	<u>1,304,535</u>
Total cash and cash equivalents	<u>\$ 1,990,284</u>	<u>\$ 328,976</u>	<u>\$ 2,319,260</u>

(continued)

CITY OF RICHLAND HILLS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

(Continued)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 997,341	\$ 394,453	\$ 1,391,794
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation and amortization expense	460,460	13,663	474,123
Changes in assets and liabilities:			
Increase in accounts receivable	(82,529)	-	(82,529)
Increase in inventory	(10,669)	-	(10,669)
Decrease in accounts payable	(31,161)	33,732	2,571
Increase in accrued liabilities	5,150	1,256	6,406
Decrease in compensated absences	(10,411)	-	(10,411)
Increase in customer deposits	5,331	-	5,331
Increase in net pension obligation	<u>21,628</u>	<u>2,301</u>	<u>23,929</u>
Net cash provided by operating activities	<u>\$ 1,355,140</u>	<u>\$ 445,405</u>	<u>\$ 1,800,545</u>
NONCASH CAPITAL ACTIVITIES			
Contributions of capital assets	<u>\$ 100,788</u>	<u>\$ -</u>	<u>\$ 100,788</u>

The accompanying notes are an integral part of these financial statements.

CITY OF RICHLAND HILLS, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Richland Hills is a municipal corporation governed by an elected mayor and five-member council. The financial statements of the City of Richland Hills, Texas (the "City") include all governmental activities, organizations, and functions for which the City exercises significant oversight responsibility. The criteria considered in determining governmental activities to be reported within the City's financial statements included: the City's accountability for the entity's fiscal matters; the scope of public service of the entity; and the nature of any special financing relationships which may exist between the City and a given governmental entity. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has two blended component units. Separate financial information for each can be obtained from the City.

Blended Component Units

The Richland Hills Development Corporation (a nonprofit development corporation formed under the Development Corporation Act of 1979, Texas Rev Civil Statute) was incorporated June 28, 1996. The Corporation serves all citizens of the City and is governed by a Board of seven directors appointed by the City Council. Four of the directors are Council Member directors and three are citizen member directors. The purpose of the Corporation is to promote infrastructure improvements, parks and park facilities and economic development within the City and the State of Texas in order to eliminate unemployment and underemployment and to promote and encourage employment and the public welfare of, for and on behalf of the City by developing, implementing, providing, and financing projects. Operation of the Corporation is funded by a 0.125 percent sales tax approved by the voters. The Corporation is reported as a Special Revenue Fund.

On November 8, 2005, citizens of the City of Richland Hills voted to create the Richland Hills Crime Control and Prevention District (the "District") dedicated to crime reduction programs. The City Council serves as the Board of Directors for the District. Operation of the District is funded by a 0.325 percent sales tax approved by the voters. The District is also reported as a Special Revenue Fund.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual funds and individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of 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 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. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting; however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property, franchise, and sales taxes, along with interest associated with the current fiscal period are all considered to be susceptible to accrual and should have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives payment.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Governmental Funds are those through which most functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The City reports the following major governmental fund:

The **General Fund** is the government's primary operating fund. It accounts for the resources used to finance the basic operations of the City and covers all activities for which a separate fund has not been established.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** is used to account for the operation of the water and sewage systems for the City.

The **Drainage Utility Fund** is used to account for the construction and maintenance of the drainage system for the City.

Additionally, the government reports the following fund and fund types:

The **Special Revenue Funds** are governmental funds that account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specific purposes.

The **Debt Service Fund** accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The **Capital Projects Funds** account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments that are highly liquid with maturity within three months or less when purchased. Assets reported as cash and cash equivalents and investments are considered cash and cash equivalents for the statement of cash flows.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

2. *Receivables and Payables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

3. *Property Taxes*

Ad valorem property taxes are levied each October 1 from valuations assessed as of the prior January 1 and are recognized as revenue beginning on the date of levy, October 1, when they become available. “Available” means collected within the current period or expected to be collected soon thereafter to be used to pay current liabilities. Taxes not expected to be collected within 60 days of the fiscal year ending are recorded as deferred revenue and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31. Tax liens are automatic on January 1 each year.

4. *Inventory*

The inventory of supplies held by the Enterprise Funds is valued at cost using the first-in first-out (“FIFO”) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

5. *Capital Assets*

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

5. *Capital Assets* (Continued)

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Buildings and improvements	20-40 years
Office equipment	5-20 years
Autos and trucks	4-5 years
Equipment	3-20 years
Waterworks and sewer system	5-40 years
Infrastructure	20-40 years

The City has reported infrastructure capital assets acquired prior to the implementation of GASB Statement No. 34 at estimated historical cost.

6. *Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Sick pay benefits are not paid upon separation; therefore no liability is reported for unpaid accumulated sick leave. Vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-term Obligations*

The government-wide financial statements and proprietary fund type financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements 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 debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

8. *Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or City Manager.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

9. *Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The fund financial statements includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities, including bonds payable (net of amortized costs) are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$(2,169,233) difference are as follows:

Certificates of obligation	\$(580,000)
Tax notes	(77,000)
Contractual obligations	(898,000)
Deferred charges - bond costs	45,010
Accrued interest payable	(10,174)
Compensated absences	(390,674)
Net pension obligations	<u>(258,395)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(2,169,233)</u>

(continued)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets (Continued)

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.” The details of this \$853,913 difference are as follows:

Property taxes receivable	\$ 116,227
Court fines receivable	422,487
Franchise taxes receivable	216,430
Ambulance receivable	64,524
Other receivables	<u>34,245</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 853,913</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(89,685) difference are as follows:

Capital outlay	\$ 1,134,449
Depreciation expense	(1,195,821)
Other miscellaneous transactions involving capital assets	<u>(28,313)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(89,685)</u>

Another element of that reconciliation states, “Some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds.” The details of this \$(72,655) difference are as follows:

(continued)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities
(Continued)

Property taxes	\$ 2,666
Court fines receivable	344,345
Franchise taxes receivable	(8,306)
Sales taxes receivable	(224,808)
Ambulance receivable	(220,797)
Other receivables	<u>34,245</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (72,655)</u></u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$ (112,686) difference are as follows:

Principal repayments	\$ 331,000
Bond issuance	(450,000)
Bond issuance costs	<u>6,314</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (112,686)</u></u>

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment</u>	<u>Credit Rating</u>	<u>Weighted Average Maturities</u>	<u>Percentage of Total Investments</u>	<u>Cost</u>	<u>Fair Value</u>
U. S. Treasury Bills	N/A	180 days	33.29%	\$ 1,099,812	\$ 1,099,912
U. S. Treasury Notes	N/A	90 days	66.60%	2,199,920	2,200,000
TexPool	AAAm	68 days	0.11%	<u>3,614</u>	<u>3,614</u>
				<u>\$ 3,303,346</u>	<u>\$ 3,303,526</u>
<u>Reconciliation to financial statements</u>					
Investments from Statement of Net Assets				\$ 3,640,549	
Less: Certificates of deposit				<u>337,203</u>	
				<u><u>\$ 3,303,346</u></u>	

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City's investment pool is a 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as a non-investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The City uses the following external investment pool:

TexPool

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers, Inc. and Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, the City's \$4,779,624 deposit balance was collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Credit Risk – Investments

The City controls credit risk by limiting its investments to those instruments allowed by the State Public Funds Investment Act described above.

Interest Rate Risk – Investments

The City manages interest rate risk by structuring its portfolio so that it will experience minimal volatility during economic cycles. This is accomplished by purchasing high quality, short to medium term securities which will complement each other. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

B. Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond ordinances and other legal restrictions. Enterprise Funds restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions:

Current		
2002 Revenue Bonds I&S		
Cash	\$	10,734
2002 Revenue Bonds Reserve		
Cash		354,514
EPA Wastewater		
Cash		697,921
2007 Revenue Bonds Construction		
Cash		27,345
2007 Revenue Bonds I&S		
Cash		2,004
2010 Revenue Bonds Construction		
Cash		202,821
U. S. Treasury Bills		1,999,928
2010 Revenue Bonds I&S		
Cash		<u>9,196</u>
	\$	<u>3,304,463</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Property Taxes

Property tax rates, established in accordance with state law, are levied on real and personal property within the City for use in financing and general and debt service expenditures for the 2011 fiscal year (2010 tax year), resulting in an adjusted tax levy of approximately \$2.2 million based on an assessed property valuation of approximately \$426.8 million were as follows:

	<u>Tax Rate per \$100 of Assessed Value</u>
General fund	\$ 0.466951
Debt service fund	<u>0.051061</u>
Total tax rate	<u>\$ 0.5180</u>

D. Receivables

Amounts recorded as receivable as of September 30, 2011, for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Taxes	\$ 373,730	\$ -	\$ 46,446	\$ 420,176
Intergovernmental	414,307	-	394,759	809,066
Fines	1,408,289	-	-	1,408,289
Accounts	-	1,174,059	76,465	1,250,524
Ambulance	<u>2,187,496</u>	<u>-</u>	<u>-</u>	<u>2,187,496</u>
Gross receivables	4,383,822	1,174,059	517,670	6,075,551
Less: allowance for uncollectibles	<u>3,148,023</u>	<u>445,286</u>	<u>10,563</u>	<u>3,603,872</u>
Net total receivables	<u>\$ 1,235,799</u>	<u>\$ 728,773</u>	<u>\$ 507,107</u>	<u>\$ 2,471,679</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

D. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not 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. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general)	\$ 91,581	\$ -
Delinquent property taxes receivable (debt service)	24,646	-
Franchise tax receivable	242,900	-
Court fines	422,487	-
Ambulance charges receivable	64,524	-
Other	<u>34,245</u>	<u>-</u>
Total governmental funds	<u>\$ 880,383</u>	<u>\$ -</u>

E. Interfund Receivable, Payables and Transfers

The composition of interfund balances for the City's individual major funds and nonmajor funds as of September 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental funds	\$ 98,780
	Water and sewer	1,207,095
	Drainage utility	2,340
Other governmental funds	General	<u>123,255</u>
Total governmental funds		<u>\$ 1,431,470</u>
Drainage utility	General	\$ 7,595
	Water and sewer	369,409
Water and sewer	Drainage utility	<u>2,482</u>
Total enterprise funds		<u>\$ 379,486</u>

The General Fund paid expenditures for the other governmental funds and the Water and Sewer Fund but was not reimbursed before year-end. The revenue of other governmental funds was deposited into the General Fund but not transferred to the appropriate other governmental funds before year-end. The Water and Sewer Fund collected customer billing on behalf of the Drainage Utility Fund but did not transfer it before year-end.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivable, Payables and Transfers (Continued)

\$830,477 of the interfund balance between the General Fund and the Water and Sewer Fund is not expected to be repaid within the next year. The General Fund has reported nonspendable fund balance and the payable has been reported as a noncurrent liability in the proprietary funds statement of net assets.

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2011, is as follows:

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>	<u>Purpose</u>
Other governmental funds	Other governmental funds	\$ <u>133,006</u>	Debt service
Water and sewer	Other governmental funds	\$ 200,000	Increased water sewer costs
	Drainage utility	<u>2,482</u>	Debt covenant requirements
Total enterprise funds		\$ <u>202,482</u>	

F. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 325,343	\$ -	\$ -	\$ -	\$ 325,343
Construction in progress	<u>728,803</u>	<u>717,590</u>	<u>873,247</u>	<u>(207,112)</u>	<u>366,034</u>
Total capital assets not being depreciated	<u>1,054,146</u>	<u>717,590</u>	<u>873,247</u>	<u>(207,112)</u>	<u>691,377</u>
Capital assets, being depreciated:					
Improvements other than buildings	1,020,799	51,549	-	(70,282)	1,002,066
Buildings	2,205,361	5,841	-	(11,900)	2,199,302
Machinery and equipment	4,573,596	411,018	265,871	(805,377)	3,913,366
Streets	<u>18,802,682</u>	<u>821,698</u>	<u>-</u>	<u>(4,050)</u>	<u>19,620,330</u>
Total capital assets, being depreciated	<u>26,602,438</u>	<u>1,290,106</u>	<u>265,871</u>	<u>(891,609)</u>	<u>26,735,064</u>
Less: accumulated depreciated for:					
Improvements other than buildings	(813,278)	(44,621)	-	47,711	(810,188)
Buildings	(1,040,795)	(60,764)	-	5,070	(1,096,489)
Machinery and equipment	(3,650,565)	(236,093)	(237,558)	778,625	(2,870,475)
Streets	<u>(12,523,117)</u>	<u>(854,343)</u>	<u>-</u>	<u>1,215</u>	<u>(13,376,245)</u>
Total capital assets being depreciated	<u>(18,027,755)</u>	<u>(1,195,821)</u>	<u>(237,558)</u>	<u>832,621</u>	<u>(18,153,397)</u>
Total capital assets being depreciated, net	<u>8,574,683</u>	<u>94,285</u>	<u>28,313</u>	<u>(58,988)</u>	<u>8,581,667</u>
Total governmental activities, net	\$ <u>9,628,829</u>	\$ <u>811,875</u>	\$ <u>901,560</u>	\$ <u>(266,100)</u>	\$ <u>9,273,044</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

F. Capital Assets (Continued)

Business-type activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 256,267	\$ -	\$ -	\$ 256,267
Construction in progress	<u>310,204</u>	<u>512,770</u>	<u>-</u>	<u>822,974</u>
Total capital assets not being depreciated	<u>566,471</u>	<u>512,770</u>	<u>-</u>	<u>1,079,241</u>
Capital assets, being depreciated:				
Improvements other than buildings	187,780	-	4,988	182,792
Buildings	193,430	-	19,408	174,022
Water and sewer systems	16,248,492	-	58,304	16,190,188
Machinery and equipment	<u>1,102,247</u>	<u>100,788</u>	<u>36,431</u>	<u>1,166,604</u>
Total capital assets, being depreciated	<u>17,731,949</u>	<u>100,788</u>	<u>119,131</u>	<u>17,713,606</u>
Less: accumulated depreciated for:				
Improvements other than buildings	(30,191)	(5,056)	(4,988)	(30,259)
Buildings	(181,452)	(2,232)	(19,296)	(164,388)
Water and sewer systems	(5,393,608)	(395,701)	(44,819)	(5,744,490)
Machinery and equipment	<u>(910,840)</u>	<u>(71,135)</u>	<u>(35,298)</u>	<u>(946,677)</u>
Total capital assets being depreciated	<u>(6,516,091)</u>	<u>(474,124)</u>	<u>(104,401)</u>	<u>(6,885,814)</u>
Total capital assets being depreciated, net	<u>11,215,858</u>	<u>(373,336)</u>	<u>14,730</u>	<u>10,827,792</u>
Total business-type activities, net	\$ <u>11,782,329</u>	\$ <u>139,434</u>	\$ <u>14,730</u>	\$ <u>11,907,033</u>

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

Governmental activities:	
General government	\$ 10,531
Public Safety	277,963
Public Works	871,594
Culture and recreation	24,929
Parks and beautification	<u>10,804</u>
Total depreciation expense- governmental activities	\$ <u>1,195,821</u>
Business-type activities:	
Water/sewer	\$ 460,461
Drainage utility	<u>13,663</u>
Total depreciation expense - business-type activities	\$ <u>474,124</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities

Governmental Activities

Combination Tax and Revenue Certificates of Obligation, Series 2001

A series of certificates of obligation totaling \$1,325,000 were issued on May 15, 2001, for the construction of street improvements and to pay the costs of issuing the certificates. The City reserves the right to redeem the certificates maturing on and after August 15, 2011, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2009, or any date thereafter, at a redemption price of par plus accrued interest. Interest rates range from 4.25% to 5.6%. Total maturity of this series is on August 15, 2016. The obligations and interest are direct, and general obligations of the City and are payable from collection of ad valorem taxes and limited surplus net revenues derived from operation of the water and sewer system, if any. The balance of this obligation at September 30, 2011, is \$580,000.

City of Richland Hills, Texas Tax Note Series 2005

A tax note dated February 1, 2005, totaling \$400,000 was purchased by Zions First National Bank on February 23, 2005. The tax note was issued for the purpose of acquiring and purchasing personal property for the City and for paying the costs related to the issuance of the tax note. The interest rate is 3.78% and the obligations mature through February 15, 2012. On August 15, 2008, or on any date thereafter, any outstanding principal installment may be redeemed in whole, prior to its scheduled payment date, at the option of the City, at the price of par plus accrued interest, upon the giving of 45 days written notice to Zions First National Bank. Principal and interest are payable from ad valorem taxes. This obligation was repaid during fiscal year 2011.

City of Richland Hills, Texas Tax Note Series 2006

A tax note dated February 1, 2006, totaling \$415,000 was purchased by Bank of America, N.A. on February 15, 2006. The tax note was issued to purchase computer equipment and software for the police and finance departments of the City, police and fire department equipment, imaging equipment for the City Secretary's office, vehicles for the police, fire and community development departments of the City, a backhoe for the public works department of the City, library equipment and the legal and fiscal fees in connection with such projects. The interest rate is 3.50% and the obligations mature through August 15, 2012. Principal installments of this note are not subject to redemption in whole or in part prior to their scheduled payment dates. Principal and interest are payable from ad valorem taxes. The balance of this obligation at September 30, 2011, is \$77,000.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Governmental Activities (Continued)

City of Richland Hills, Public Property Finance Contractual Obligation Series 2007

A series of contractual obligations totaling \$535,000 dated February 1, 2007, were issued for the purpose of paying all or a portion of the Issuer's contractual obligations to be incurred in connection with the acquisition or purchase of personal property, in accordance with the provisions of the Public Property Finance Act, and to pay the costs incurred in connection with the issuance of the contractual obligation. The interest rate is 3.825% and the obligation matures through August 15, 2022. Principal and interest are payable from ad valorem taxes. The balance of this obligation at September 30, 2011, is \$425,000.

City of Richland Hills, Public Property Finance Contractual Obligation Series 2011

A series of contractual obligations totaling \$473,000 dated February 1, 2011, were issued for the purpose of paying all or a portion of the Issuer's contractual obligations to be incurred in connection with the acquisition or purchase of personal property, in accordance with the provisions of the Public Property Finance Act, and to pay the costs incurred in connection with the issuance of the contractual obligation. The interest rate is 3.64% and the obligation matures through August 15, 2016. Principal and interest are payable from ad valorem taxes. The balance of this obligation at September 30, 2011, is \$473,000.

Business-type Activities

1998 Combination Tax and Water and Sewer Revenue Certificates of Obligation

The U. S. Environmental Protection Agency issued an Administrative Order to the City, mandating millions of dollars of improvements to the wastewater system with the City. The City obtained from the Texas Water Development Board a loan in the amount of \$4 million and in turn the City approved the issuance of Certificates of Obligation in the amount of \$4 million to be used to secure the loan. A monthly charge in the amount of \$8.17 per wastewater service customer is used to repay this Certificate of Obligation. Interest rates range from 2.65% to 3.90% and the obligation's last payment date is August 15, 2018. The balance of this certificate of obligation is \$1,860,000 at September 30, 2011.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Business-type Activities (Continued)

Waterworks and Sewer System Revenue Bonds, Series 2002

A series of 400 bonds at \$5,000 each dated March 15, 2002, were issued for the public purpose of acquiring, constructing and installing new additions and improvements to the waterworks and sewer system and paying the costs incurred in connection with issuance of the bonds. On August 15, 2012, or on any date thereafter, the bonds of this series having stated maturities on and after August 15, 2013, may be redeemed prior to their scheduled maturities, at the option of the issuer with funds derived from any available and lawful source, as a whole, or in part, in principal amounts of \$5,000 or any integral multiple thereof, at a redemption price of par plus accrued interest. Interest rates range from 4.75% to 5.15%. Total maturity of this series is on August 15, 2022. Principal and interest are payable from net revenues from the water and sewer system. The City is required to maintain a reserve account equal to the average annual debt service requirements. The balance of these bonds at September 30, 2011, is \$1,340,000.

The bonds' agreement requires the City's Water and Sewer Fund to maintain and charge rates that will produce net revenues equal to 1.25 times the debt service of the bonds and any additional bonds; and that will be sufficient to generate all deposits required to be made into the funds created under bond ordinances and any ordinance authorizing additional bonds.

For the year, this ratio is measured at 1.69 meaning that sufficient net revenues were available to comply with this bond covenant.

Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 2007

Certificates of Obligation dated March 15, 2007, were issued for paying all or a portion of the City's contractual obligations incurred in connection with (i) acquiring, constructing, installing and equipping additions, extensions and improvements to the City's waterworks and sewer system, and the acquisition of land and interests in land as necessary; and (ii) legal, fiscal, design and engineering fees in connection with such projects. On August 15, 2017, or on any date thereafter, the certificates of this series having stated maturities on and after August 15, 2018, may be redeemed prior to their scheduled maturities, at the option of the issuer with funds derived from any available and lawful source, as a whole, or in part, in principal amounts of \$5,000 or any integral multiple thereof, at a redemption price of par plus accrued interest. Interest rates range from 3.6% to 4.0%. Total maturity of this series is on August 15, 2027. Ad valorem taxes and the surplus revenues of the Water and Sewer Fund are pledged to the payment of the certificates, however, if surplus revenues or other lawfully available funds of the City are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes required to be levied may be reduced by the revenues on deposit in the Interest and Sinking Fund. The balance of these certificates at September 30, 2011, is \$1,800,000.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Business-type Activities (Continued)

Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 2010

Certificates of Obligation dated March 1, 2010, were issued for paying all or a portion of the City's contractual obligations incurred in connection with (i) acquiring, constructing, installing and equipping improvements to the City's storm water and drainage utility system, and the acquisition of land and interests in land as necessary therefore; and (ii) legal, fiscal, design and engineering fees in connection with such projects. On February 15, 2020, or on any date thereafter, the certificates of this series having stated maturities on and after August 15, 2020, may be redeemed prior to their scheduled maturities, at the option of the issuer with funds derived from any available and lawful source, as a whole, or in part, in principal amounts of \$5,000 or any integral multiple thereof, at a redemption price of par plus accrued interest. Interest rates range from 3.000% to 4.125%. Total maturity of this series is on August 15, 2030. Ad valorem taxes and the surplus revenues of the Drainage Utility Fund are pledged to the payment of the certificates, however, if surplus revenues or other lawfully available funds of the City are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes required to be levied may be reduced by the revenues on deposit in the Interest and Sinking Fund. The balance of these certificates at September 30, 2011, is \$2,700,000.

Future Requirements

The annual requirements to amortize all certificates of obligation, tax notes, contractual obligations and revenue bonds outstanding as of September 30, 2011, are as follows:

Fiscal Year Ending	Governmental Activities		Business-type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 293,000	\$ 71,070	\$ 510,000	\$ 301,872	\$ 803,000	\$ 372,942
2013	238,000	50,383	530,000	283,046	768,000	333,429
2014	246,000	40,434	555,000	263,305	801,000	303,739
2015	255,000	30,065	580,000	242,452	835,000	272,517
2016	268,000	19,272	605,000	220,419	873,000	239,691
2017-2021	210,000	33,278	2,435,000	197,064	2,645,000	230,342
2022-2026	45,000	1,721	1,585,000	-	1,630,000	1,721
2027-2031	-	-	900,000	84,314	900,000	84,314
Totals	\$ 1,555,000	\$ 246,223	\$ 7,700,000	\$ 1,592,472	\$ 9,255,000	\$ 1,838,695

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Future Requirements (Continued)

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2011.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Certificates of obligation	\$ 680,000	\$ -	\$ 100,000	\$ 580,000	\$ 105,000
Tax notes	278,000	-	201,000	77,000	77,000
Contractual obligation bonds	455,000	473,000	30,000	898,000	111,000
Compensated absences	220,531	271,301	101,158	390,674	78,135
Net pension obligation	167,509	90,886	-	258,395	-
Total governmental activities	<u>1,801,040</u>	<u>835,187</u>	<u>432,158</u>	<u>2,204,069</u>	<u>371,135</u>
Business-type activities:					
Combination Tax and Revenue Certificates	\$ 6,710,000	\$ -	\$ 350,000	\$ 6,360,000	\$ 415,000
Waterworks and sewer system revenue bonds	1,435,000	-	95,000	1,340,000	95,000
Capital lease payable	300,521	-	44,741	255,780	46,754
Note payable - wastewater charges	375,152	-	375,152	-	-
Compensated absences	84,630	32,533	42,944	74,219	14,844
Net pension	43,664	23,929	-	67,593	-
Total business-type activities	<u>8,948,967</u>	<u>56,462</u>	<u>907,837</u>	<u>8,097,592</u>	<u>571,598</u>
	<u>\$ 10,750,007</u>	<u>\$ 891,649</u>	<u>\$ 1,339,995</u>	<u>\$ 10,301,661</u>	<u>\$ 942,733</u>

Compensated Absences

Compensated absences and the net pension obligations of the governmental activities and business-type activities are paid by the General Fund and Water and Sewer Fund, respectively.

H. Notes Payable – Wastewater Charges

The City has a contract with the City of Fort Worth for wastewater treatment. During fiscal year 2010, the two cities agreed to a payment plan for services rendered in February 2010 through September 30, 2010, totaling \$601,683, which includes late fees of \$7,969. The first payment of \$123,000 was due November 20, 2010. Subsequent payments of \$19,945 are due on the 20th of each month from December 2010 through November 2012. However, in March 2011, it was discovered that the City of Fort Worth's wastewater meter was recording incorrect flows. Richland Hills received a credit of \$226,531 for the usage of September 2010 through September 2011. This credit was applied to the balance due on the payment plan and left a balance due of \$375,152 at September 30, 2010. In March, the two cities agreed to a new payment plan as a result of the credit given to Richland Hills, which consisted of eight payments of \$13,545 each. At the end of fiscal year 2011 all of the debt had been repaid to the City of Fort Worth.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

H. Capital Leases Payable

On November 3, 2006, the City entered into a lease-purchase agreement with Chase Equipment Leasing, Inc. to finance an electronic meter read project for the Water and Sewer Fund. The total cost of the project was \$581,801. The interest rate is 4.5% per annum. The \$478,191 proceeds of the lease-purchase agreement were deposited into an escrow account with the Bank of New York Trust Company, N.A. During the fiscal year ending September 30, 2009, the remaining lease proceeds of \$129,404 were received. Future minimum lease-purchase commitments are as follows:

<u>Fiscal Year Ending</u>	<u>Business-type Activities</u>
2012	\$ 58,265
2013	58,264
2014	58,264
2015	58,264
2016	<u>58,264</u>
Total debt service requirements	291,321
Less: interest portion	<u>35,541</u>
Debt principal	<u>\$ 255,780</u>

Assets under lease-purchase agreements and the related accumulated depreciation are reported as follows:

	<u>Business-type Activities</u>
Water and sewer systems	\$ 581,801
Less: accumulated depreciation	<u>123,633</u>
Net	<u>\$ 458,168</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

J. Fund Balance

As of September 30, 2011, governmental fund balance is composed of the following:

Fund Balance Classification	General	Other Governmental	Totals
Nonspendable:			
Advances to other funds	\$ 830,477	\$ -	\$ 830,477
Restricted:			
Retirement of long-term debt	-	92,309	92,309
Capital acquisition and construction	-	266,940	266,940
Tourism activities	-	79,441	79,441
Economic development	-	433,792	433,792
Crime control district	-	616,995	616,995
Red Light Camera Enforce	-	125,945	125,945
Assigned:			
Capital acquisition and construction	-	23,425	23,425
Unassigned	<u>1,496,041</u>	<u>-</u>	<u>1,496,041</u>
Total governmental fund balance	<u>\$ 2,326,518</u>	<u>\$ 1,638,847</u>	<u>\$ 3,965,365</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2011, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$ 250 to \$25,000 on various policies. At year-end, the City did not have any significant claims. TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of specified dollar amounts for each insured event.

(continued)

IV. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2011, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

B. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all fulltime government employees at their option, permits participant to defer a portion of their salary until future years. The plan is administered by the Public Employees Benefit Services Corporation (PEBSO). The City does not contribute to this plan nor does it have any liability for this plan.

C. Retirement Plan

Plan Description

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City for 2011 and 2010, were the same and were as follows:

	Plan Year <u>2010</u>	Plan Year <u>2011</u>
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

(continued)

IV. OTHER INFORMATION (Continued)

C. Retirement Plan (Continued)

Contributions

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 782,362	\$ 747,806	\$ 607,604
Interest on net pension obligation	15,838	6,421	-
Adjustment to ARC	<u>(13,104)</u>	<u>(5,228)</u>	<u>-</u>
Annual pension cost (APC)	785,096	748,999	607,604
Contributions made	<u>670,281</u>	<u>623,444</u>	<u>521,986</u>
Increase (decrease) in NPO	114,815	125,555	85,618
Net pension obligation/(asset), beginning	<u>211,173</u>	<u>85,618</u>	<u>-</u>
Net pension obligation/(asset), ending	<u>\$ 325,988</u>	<u>\$ 211,173</u>	<u>\$ 85,618</u>
Contributions as a percentage of ARC	85.67%	83.37%	85.91%

(continued)

IV. OTHER INFORMATION (Continued)

C. Retirement Plan (Continued)

Actuarial Assumptions

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

Actuarial valuation date	12/31/2008	12/31/2009	12/31/10 - prior to restructuring	12/31/2010 - restructured
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent single amortization period	28 years - Closed period	28 years - Closed period	27.1 years; Closed period	27.2 years; Closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	10-year	10-year	10-year	10-year
Actuarial assumptions:	smoothed market	smoothed market	smoothed market	smoothed market
Investment rate of return	7.50%	7.50%	7.50%	7.00%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at:	3.00%	3.00%	3.00%	3.00%

Funded Status

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010 ¹	\$ 11,983,685	\$ 17,366,050	69.0%	\$ 5,382,365	\$ 3,927,117	137.1%
12/31/2010 ²	17,870,012	22,113,696	80.8%	4,243,684	3,927,117	108.1%

- (1) Actuarial valuation performed under the original fund structure.
- (2) Actuarial valuation performed under the new fund structure.

(continued)

IV. OTHER INFORMATION (Continued)

C. Retirement Plan (Continued)

Funded Status (Continued)

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

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

D. Other Postemployment Benefits

Supplemental Death Benefits Fund

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

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

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

(continued)

IV. OTHER INFORMATION (Continued)

D. Other Postemployment Benefits (Continued)

Supplemental Death Benefits Fund (Continued)

The City's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$11,610, \$10,786, and \$9,030, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (retiree-only portion of rates)			
<u>Plan/ Calendar Year</u>	<u>Required Contribution Rate</u>	<u>Actual Contribution Rate</u>	<u>Percentage of ARC Contributed</u>
2011	0.04%	0.04%	100%
2010	0.05%	0.05%	100%
2009	0.05%	0.05%	100%

E. Cost-sharing Arrangements

Community Development Block Grants

The City participates with Tarrant County in construction projects that are federally funded through annual Community Development Block Grants to the County. The grant amount available to Tarrant County and allocated to the 3rd Year project for curb, gutter and driveway replacement on Maple Park was \$104,517. Project construction and engineering costs for the current fiscal year were \$95,142 and \$9,375, respectively.

F. Contingent Liabilities

Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency.

(continued)

IV. OTHER INFORMATION (Continued)

F. Contingent Liabilities (Continued)

Federal and State Programs (Continued)

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the City's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

G. Contracts and Commitments

Wastewater Treatment

On June 8, 1987, the City entered into a 30-year agreement with the City of Fort Worth whereby Fort Worth agreed to provide wastewater treatment to the City. The agreement allows the City to connect its wastewater system to the Fort Worth wastewater system. Charges to the City are based upon cost-of-service rate studies performed by independent utility rate consultants. This contract has been amended various times during the years. Charges during 2011 for the treatment of wastewater by the City of Fort Worth were \$338,376.

Water Treatment

The City entered into a 20-year agreement with the City of Fort Worth effective January 1, 2011, through September 30, 2031, whereby Fort Worth agreed to provide treated water to the City. Rates to purchase the water will be based upon a cost-of-service rate study conducted every three years by independent utility rate consultants. Charges during 2011 for the purchase of treated water from the City of Fort Worth were \$586,925.

Transportation of Sewerage

On May 13, 1986, the City entered into an agreement with the City of Hurst to allow sewerage to be metered to Hurst then transported through the Trinity River Authority Calloway Branch sewer line to the City of Fort Worth. Charges to the City are based upon current sewer rates charged to Hurst by the Trinity River Authority and a \$75.00 per month meter service charge. Charges during 2011 from the City of Hurst were \$87,093.

(continued)

IV. OTHER INFORMATION (Continued)

H. Subsequent Events

On November 8, 2011, the City Council authorized the issuance of Tax and Water and Sewer Revenue Refunding Bonds, Series 2011 in the amount of \$3,110,000. The bonds were dated November 1, 2011 and were issued to refund the City's Combination Tax and Water and Sewer Revenue Certificates of Obligation, Series 1998, and the Waterworks and Sewer System Revenue Bonds, Series 2002. The bond proceeds will also be used to pay the costs incurred in connection with the issuance of the bonds. Payments will be made semi-annually on each August 15 and February 15 beginning February 15, 2012.

I. Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF RICHLAND HILLS, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes:				
General property	\$ 2,003,151	\$ 2,003,151	\$ 1,978,741	\$(24,410)
Sales and use	1,495,070	1,495,070	1,904,776	409,706
Franchise	549,201	549,201	517,321	(31,880)
Fines and fees	433,233	433,233	370,819	(62,414)
Licenses and permits	129,843	129,843	274,680	144,837
Charges for services	258,546	258,546	253,010	(5,536)
Intergovernmental	132,518	132,518	105,961	(26,557)
Interest income	5,040	5,040	1,600	(3,440)
Miscellaneous	130,109	130,109	94,479	(35,630)
Total revenues	<u>5,136,711</u>	<u>5,136,711</u>	<u>5,501,387</u>	<u>364,676</u>
EXPENDITURES				
Current:				
General government	345,394	345,394	424,446	(79,052)
Public safety	3,822,166	3,820,866	3,742,173	78,693
Public works	268,925	268,625	266,913	1,712
Culture and recreation	370,931	370,930	382,008	(11,078)
Parks and beautification	25,000	25,000	10,378	14,622
Community development	334,194	334,194	347,936	(13,742)
Capital outlay	23,698	23,698	149,192	(125,494)
Total expenditures	<u>5,190,308</u>	<u>5,188,707</u>	<u>5,323,046</u>	<u>(134,339)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(53,597)</u>	<u>(51,996)</u>	<u>178,341</u>	<u>230,337</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of general capital assets	37,768	37,768	23,209	(14,559)
Proceeds from insurance recovery	-	-	50,146	50,146
Total other financing sources (uses)	<u>37,768</u>	<u>37,768</u>	<u>73,355</u>	<u>35,587</u>
NET CHANGE IN FUND BALANCE	<u>(15,829)</u>	<u>(14,228)</u>	<u>251,696</u>	<u>265,924</u>
FUND BALANCE, BEGINNING	<u>2,074,822</u>	<u>2,074,822</u>	<u>2,074,822</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,058,993</u>	<u>\$ 2,060,594</u>	<u>\$ 2,326,518</u>	<u>\$ 265,924</u>

CITY OF RICHLAND HILLS, TEXAS

TEXAS MUNICIPAL RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (ALL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/08	\$ 10,454,174	\$ 15,341,093	68.1%	\$ 4,886,919	\$ 3,550,541	137.6%
12/31/09	11,470,121	16,892,517	67.9%	5,422,396	3,898,255	139.1%
12/31/2010 ¹	11,983,685	17,366,050	69.0%	5,382,365	3,927,117	137.1%
12/31/2010 ²	17,870,012	22,113,696	80.8%	4,243,684	3,927,117	108.1%

CITY OF RICHLAND HILLS, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2011

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Richland Hills Development Corporation, Crime Control and Prevention District, Red Light Enforcement, and Hotel Occupancy Tax Special Revenue Funds, Debt Service Fund, and all the Capital Projects Funds. All annual appropriations lapse at fiscal year-end.

At least 35 days prior to the beginning of the budget year, October 1, the City Manager will submit the proposed City budget for the ensuing year to the City Council. From its date of submission, the proposed budget shall be a public record. The City Council shall hold a public hearing on the proposed budget at least 14 days before the beginning of the budget year. At least 10 days' notice of such public hearing will be given by notice in the official newspaper. After a hearing, the City Council may make such changes it deems proper in the proposed budget and adopt a final budget prior to the beginning of the budget year. All budget hearings and actions on the budget shall be open to the public. If a final budget is not adopted by the beginning of the budget year, the proposed budget of the City Manager shall be deemed to have been approved. The budget shall go into effect on the first day of the budget year. The budget may be amended during the year only after complying with the notice procedure called for above or a doption of the budget. The City Manager is authorized to transfer budgeted amounts between line items and departments within a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at the time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at the end of the year that were provided for in the subsequent year's budget.

The City's budget was properly amended throughout the year as needed.

B. Excess of Expenditures Over Appropriations

The General Fund operating expenses exceeded appropriations by \$134,339 primarily due to expenditures for the renovation of the library building in the capital outlay function. Total capital outlay expenditures exceeded appropriations by \$125,494.

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**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects or proprietary funds) that are legally restricted to expenditures for specified purposes.

Richland Hills Development Corporation – is a blended component unit which accounts for the promotion of infrastructure improvements, parks and park facilities and economic development within the City and the State of Texas in order to eliminate unemployment and underemployment and to promote and encourage employment and the public welfare of, for and on behalf of the City.

Crime Control and Prevention District – is a blended component unit accounted for in a Special Revenue Fund. The Crime District accounts for the proceeds of a .325 percent sales tax and crime reduction programs.

Red Light Camera Enforce Fund – accounts for all revenues and expenditures related to red light cameras placed at intersections in the City.

Hotel Occupancy Tax Fund – accounts for the proceeds of a 7 percent hotel occupancy tax and expenditures related to tourism.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

CAPITAL PROJECTS FUNDS

Capital Projects Funds account for all resources used for the acquisition and/or construction of capital facilities by the City, except those financed by the Enterprise Funds.

Road and Street Fund – is used to account for intergovernmental revenue received from the Fort Worth Transportation Authority and improvements made to the City's infrastructure.

2001 Certificates of Obligation Fund – is used to account for the proceeds of the Certificates of Obligation and future expenditures for the Burns Road project.

Oil and Gas Lease Fund – is used to account for the proceeds of the oil and gas lease bonus and future expenditures for capital projects.

Capital Projects Fund – accounts for the purchase of equipment by the City.

2011 PFFCO Fund – accounts for the 2011 Public Property Financial Contractual Obligation, which will be used to purchase an ambulance, patrol vehicles, service trucks, tractor and equipment.

Safe Routes to School Fund – is used to account for the Safe Routes to School grant, which will be used to construct sidewalks at Richland Elementary School, Jack Binion Elementary School, and Richland Middle School.

CITY OF RICHLAND HILLS, TEXAS

NONMAJOR FUNDS

COMBINING BALANCE SHEET

SEPTEMBER 30, 2011

	Special Revenues				
	Richland Hills Development Corporation	Crime Control District	Red Light Camera Enforce	Hotel Occupancy Tax	Total Special Revenue Funds
ASSETS					
Cash	\$ 393,011	\$ 509,884	\$ -	\$ 68,362	\$ 971,257
Receivables (net of allowances for uncollectibles):					
Taxes	-	-	-	11,237	11,237
Accounts	-	-	28,649	-	28,649
Intergovernmental	51,150	150,862	-	-	202,012
Due from other funds	<u>-</u>	<u>-</u>	<u>123,255</u>	<u>-</u>	<u>123,255</u>
 Total assets	 <u>\$ 444,161</u>	 <u>\$ 660,746</u>	 <u>\$ 151,904</u>	 <u>\$ 79,599</u>	 <u>\$ 1,336,410</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,164	\$ 3,499	\$ 25,959	\$ 115	\$ 30,737
Due to other funds	9,205	40,252	-	43	49,500
Deferred and unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>10,369</u>	<u>43,751</u>	<u>25,959</u>	<u>158</u>	<u>80,237</u>
 Fund balances:					
Restricted	433,792	616,995	125,945	79,441	1,256,173
Assigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>433,792</u>	<u>616,995</u>	<u>125,945</u>	<u>79,441</u>	<u>1,256,173</u>
 Total liabilities and fund balances	 <u>\$ 444,161</u>	 <u>\$ 660,746</u>	 <u>\$ 151,904</u>	 <u>\$ 79,599</u>	 <u>\$ 1,336,410</u>

Capital Projects

Debt Service	Road and Street	2001 Certificates of Obligation	Oil and Gas Lease	Capital Projects	2011 PPFCO	Safe Routes to School	Total Capital Projects Funds	Total Nonmajor Funds
\$ 93,416	\$ 6,536	\$ 68,228	\$ 149,608	\$ -	\$ 29,805	\$ -	\$ 254,177	\$ 1,318,850
24,646	-	-	-	-	-	-	-	35,883
-	-	-	47,816	-	-	-	47,816	76,465
-	-	-	-	23,425	-	169,322	192,747	394,759
-	-	-	-	-	-	-	-	123,255
<u>\$ 118,062</u>	<u>\$ 6,536</u>	<u>\$ 68,228</u>	<u>\$ 197,424</u>	<u>\$ 23,425</u>	<u>\$ 29,805</u>	<u>\$ 169,322</u>	<u>\$ 494,740</u>	<u>\$ 1,949,212</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,957	\$ 121,957	\$ 152,694
1,107	44	501	263	-	-	47,365	48,173	98,780
24,646	-	-	34,245	-	-	-	34,245	58,891
<u>25,753</u>	<u>44</u>	<u>501</u>	<u>34,508</u>	<u>-</u>	<u>-</u>	<u>169,322</u>	<u>204,375</u>	<u>310,365</u>
92,309	6,492	67,727	162,916	-	29,805	-	266,940	1,615,422
-	-	-	-	23,425	-	-	23,425	23,425
<u>92,309</u>	<u>6,492</u>	<u>67,727</u>	<u>162,916</u>	<u>23,425</u>	<u>29,805</u>	<u>-</u>	<u>290,365</u>	<u>1,638,847</u>
<u>\$ 118,062</u>	<u>\$ 6,536</u>	<u>\$ 68,228</u>	<u>\$ 197,424</u>	<u>\$ 23,425</u>	<u>\$ 29,805</u>	<u>\$ 169,322</u>	<u>\$ 494,740</u>	<u>\$ 1,949,212</u>

CITY OF RICHLAND HILLS, TEXAS

NONMAJOR FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Special Revenues				Total Special Revenue Funds
	Richland Hills Development Corporation	Crime Control District	Red Light Camera Enforce	Hotel Occupancy Tax	
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	237,889	675,913	-	-	913,802
Hotel occupancy tax	-	-	-	152,597	152,597
Fines and fees	-	-	252,844	-	252,844
Intergovernmental	-	-	-	-	-
Interest	458	756	-	76	1,290
Other	-	-	-	-	-
Total revenues	<u>238,347</u>	<u>676,669</u>	<u>252,844</u>	<u>152,673</u>	<u>1,320,533</u>
EXPENDITURES					
Current:					
Public safety	-	513,195	320,313	-	833,508
Public works	-	-	-	-	-
Community development	149,545	-	-	94,961	244,506
Capital outlay	51,549	-	22,852	-	74,401
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>201,094</u>	<u>513,195</u>	<u>343,165</u>	<u>94,961</u>	<u>1,152,415</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>37,253</u>	<u>163,474</u>	<u>(90,321)</u>	<u>57,712</u>	<u>168,118</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	-	-	-	-
Proceeds from bond issuance	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	(133,006)	-	-	-	(133,006)
Total other financing sources (uses)	<u>(133,006)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(133,006)</u>
NET CHANGE IN FUND BALANCES	<u>(95,753)</u>	<u>163,474</u>	<u>(90,321)</u>	<u>57,712</u>	<u>35,112</u>
FUND BALANCES, BEGINNING	<u>529,545</u>	<u>453,521</u>	<u>216,266</u>	<u>21,729</u>	<u>1,221,061</u>
FUND BALANCES, ENDING	<u>\$ 433,792</u>	<u>\$ 616,995</u>	<u>\$ 125,945</u>	<u>\$ 79,441</u>	<u>\$ 1,256,173</u>

Capital Projects

Debt Service	Road and Street	2001 Certificates of Obligation	Oil and Gas Lease	Capital Projects	2011 PPFCO	Safe Routes to School	Total Capital Projects Funds	Total Nonmajor Funds
\$ 216,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 216,163
-	-	-	-	-	-	-	-	913,802
-	-	-	-	-	-	-	-	152,597
-	-	-	-	-	-	-	-	252,844
-	115,579	-	-	-	-	278,414	393,993	393,993
257	65	102	401	-	91	-	659	2,206
-	-	-	97,349	-	-	-	97,349	97,349
<u>216,420</u>	<u>115,644</u>	<u>102</u>	<u>97,750</u>	<u>-</u>	<u>91</u>	<u>278,414</u>	<u>492,001</u>	<u>2,028,954</u>
-	-	-	-	-	-	-	-	833,508
-	275	-	4,500	-	4,563	-	9,338	9,338
-	-	-	-	-	-	-	-	244,506
-	121,883	237	178,450	-	433,223	278,414	1,012,207	1,086,608
331,000	-	-	-	-	-	-	-	331,000
60,958	-	-	-	-	23,000	-	23,000	83,958
<u>391,958</u>	<u>122,158</u>	<u>237</u>	<u>182,950</u>	<u>-</u>	<u>460,786</u>	<u>278,414</u>	<u>1,044,545</u>	<u>2,588,918</u>
(175,538)	(6,514)	(135)	(85,200)	-	(460,695)	-	(552,544)	(559,964)
-	-	-	-	-	17,500	-	17,500	17,500
-	-	-	-	-	473,000	-	473,000	473,000
133,006	-	-	-	-	-	-	-	133,006
-	-	-	(200,000)	-	-	-	(200,000)	(333,006)
<u>133,006</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>490,500</u>	<u>-</u>	<u>290,500</u>	<u>273,000</u>
(42,532)	(6,514)	(135)	(285,200)	-	29,805	-	(262,044)	(269,464)
<u>134,841</u>	<u>13,006</u>	<u>67,862</u>	<u>448,116</u>	<u>23,425</u>	<u>-</u>	<u>-</u>	<u>552,409</u>	<u>1,908,311</u>
<u>\$ 92,309</u>	<u>\$ 6,492</u>	<u>\$ 67,727</u>	<u>\$ 162,916</u>	<u>\$ 23,425</u>	<u>\$ 29,805</u>	<u>\$ -</u>	<u>\$ 290,365</u>	<u>\$ 1,638,847</u>

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SPECIAL REVENUE FUNDS

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CITY OF RICHLAND HILLS, TEXAS

RICHLAND HILLS DEVELOPMENT CORPORATION

SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Sales and use tax	\$ 167,178	\$ 167,178	\$ 237,889	\$ 70,711
Intergovernmental	9,600	9,600	-	(9,600)
Interest income	1,034	1,034	458	(576)
Total revenues	<u>177,812</u>	<u>177,812</u>	<u>238,347</u>	<u>60,535</u>
EXPENDITURES				
Current:				
Community development	68,630	68,630	149,545	(80,915)
Capital outlay	478,000	478,000	51,549	426,451
Total expenditures	<u>546,630</u>	<u>546,630</u>	<u>201,094</u>	<u>345,536</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(368,818)</u>	<u>(368,818)</u>	<u>37,253</u>	<u>406,071</u>
OTHER FINANCING SOURCES AND (USES)				
Transfers out	(132,027)	(132,027)	(133,006)	(979)
Total other financing sources and uses	<u>(132,027)</u>	<u>(132,027)</u>	<u>(133,006)</u>	<u>(979)</u>
NET CHANGE IN FUND BALANCE	<u>(500,845)</u>	<u>(500,845)</u>	<u>(95,753)</u>	<u>405,092</u>
FUND BALANCE, BEGINNING	<u>529,545</u>	<u>529,545</u>	<u>529,545</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 28,700</u>	<u>\$ 28,700</u>	<u>\$ 433,792</u>	<u>\$ 405,092</u>

CITY OF RICHLAND HILLS, TEXAS

CRIME CONTROL DISTRICT

SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Sales and use tax	\$ 519,913	\$ 519,913	\$ 675,913	\$ 156,000
Interest	<u>557</u>	<u>557</u>	<u>756</u>	<u>199</u>
Total revenues	<u>520,470</u>	<u>520,470</u>	<u>676,669</u>	<u>156,199</u>
EXPENDITURES				
Current:				
Public safety	<u>535,140</u>	<u>535,140</u>	<u>513,195</u>	<u>21,945</u>
Total expenditures	<u>535,140</u>	<u>535,140</u>	<u>513,195</u>	<u>21,945</u>
NET CHANGE IN FUND BALANCE	(14,670)	(14,670)	163,474	178,144
FUND BALANCE, BEGINNING	<u>453,521</u>	<u>453,521</u>	<u>453,521</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 438,851</u>	<u>\$ 438,851</u>	<u>\$ 616,995</u>	<u>\$ 178,144</u>

CITY OF RICHLAND HILLS, TEXAS

RED LIGHT CAMERA ENFORCEMENT

SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Fines and fees	130,000	130,000	\$ 252,844	\$ 122,844
Total revenues	130,000	130,000	252,844	122,844
EXPENDITURES				
Current:				
Public safety	104,739	104,739	320,313	(215,574)
Capital outlay	100,000	100,000	22,852	77,148
Total expenditures	204,739	204,739	343,165	(138,426)
NET CHANGE IN FUND BALANCE	(74,739)	(74,739)	(90,321)	(15,582)
FUND BALANCE, BEGINNING	216,266	216,266	216,266	-
FUND BALANCE, ENDING	\$ 141,527	\$ 141,527	\$ 125,945	\$(15,582)

CITY OF RICHLAND HILLS, TEXAS

HOTEL OCCUPANCY TAX

SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Hotel occupancy tax	\$ 132,308	\$ 132,308	\$ 152,597	\$ 20,289
Interest income	350	350	76	(274)
Total revenues	132,658	132,658	152,673	20,015
EXPENDITURES				
Current:				
Community development	92,789	92,789	94,961	(2,172)
Total expenditures	92,789	92,789	94,961	(2,172)
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	39,869	39,869	57,712	17,843
OTHER FINANCING SOURCES (USES)				
Transfers out	(38,974)	(38,974)	-	38,974
Total other financing sources (uses)	(38,974)	(38,974)	-	38,974
NET CHANGE IN FUND BALANCE	895	895	57,712	56,817
FUND BALANCE, BEGINNING	21,729	21,729	21,729	-
FUND BALANCE, ENDING	\$ 22,624	\$ 22,624	\$ 79,441	\$ 56,817

DEBT SERVICE FUNDS

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CITY OF RICHLAND HILLS, TEXAS

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 194,558	\$ 194,558	\$ 216,163	\$ 21,605
Interest income	98	98	257	159
Total revenues	<u>194,656</u>	<u>194,656</u>	<u>216,420</u>	<u>21,764</u>
EXPENDITURES				
Debt service:				
Principal	266,000	266,000	331,000	(65,000)
Interest and fiscal charges	<u>59,996</u>	<u>59,996</u>	<u>60,958</u>	<u>(962)</u>
Total expenditures	<u>325,996</u>	<u>325,996</u>	<u>391,958</u>	<u>(65,962)</u>
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	<u>(131,340)</u>	<u>(131,340)</u>	<u>(175,538)</u>	<u>(44,198)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>132,028</u>	<u>132,028</u>	<u>133,006</u>	<u>978</u>
Total other financing sources (uses)	<u>132,028</u>	<u>132,028</u>	<u>133,006</u>	<u>978</u>
NET CHANGE IN FUND BALANCE	688	688	(42,532)	(43,220)
FUND BALANCE, BEGINNING	<u>134,841</u>	<u>134,841</u>	<u>134,841</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 135,529</u>	<u>\$ 135,529</u>	<u>\$ 92,309</u>	<u>\$ (43,220)</u>

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CAPITAL PROJECTS FUNDS

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CITY OF RICHLAND HILLS, TEXAS

ROAD AND STREET

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Intergovernmental	\$ 116,990	\$ 116,990	\$ 115,579	\$ (1,411)
Interest	147	147	65	(82)
Total revenues	<u>117,137</u>	<u>117,137</u>	<u>115,644</u>	<u>(1,493)</u>
EXPENDITURES				
Public works	-	-	275	(275)
Capital outlay	<u>117,137</u>	<u>117,137</u>	<u>121,883</u>	<u>(4,746)</u>
Total expenditures	<u>117,137</u>	<u>117,137</u>	<u>122,158</u>	<u>(5,021)</u>
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	-	-	(6,514)	(6,514)
FUND BALANCE, BEGINNING	<u>13,006</u>	<u>13,006</u>	<u>13,006</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 13,006</u>	<u>\$ 13,006</u>	<u>\$ 6,492</u>	<u>\$ (6,514)</u>

CITY OF RICHLAND HILLS, TEXAS

2001 CERTIFICATES OF OBLIGATION

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 102	\$ 102
Total revenues	-	-	102	102
EXPENDITURES				
Capital outlay	67,808	67,808	237	67,571
Total expenditures	67,808	67,808	237	67,571
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	(67,808)	(67,808)	(135)	67,673
FUND BALANCE, BEGINNING	67,862	67,862	67,862	-
FUND BALANCE, ENDING	\$ 54	\$ 54	\$ 67,727	\$ 67,673

CITY OF RICHLAND HILLS, TEXAS

OIL AND GAS LEASE

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ 1,400	\$ 1,400	\$ 401	\$ (999)
Other	300,000	300,000	97,349	(202,651)
Total revenues	<u>301,400</u>	<u>301,400</u>	<u>97,750</u>	<u>(203,650)</u>
EXPENDITURES				
Public works	-	-	4,500	(4,500)
Capital outlay	200,000	200,000	178,450	21,550
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>182,950</u>	<u>17,050</u>
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	101,400	101,400	(85,200)	(186,600)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(200,000)	(200,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
NET CHANGE IN FUND BALANCE	101,400	101,400	(285,200)	(386,600)
FUND BALANCE, BEGINNING	<u>448,116</u>	<u>448,116</u>	<u>448,116</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 549,516</u>	<u>\$ 549,516</u>	<u>\$ 162,916</u>	<u>\$ (386,600)</u>

CITY OF RICHLAND HILLS, TEXAS

2011 PPFCO

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ 91	\$ 91
Total revenues	<u>-</u>	<u>-</u>	<u>91</u>	<u>91</u>
EXPENDITURES				
Capital outlay	-	-	433,223	(433,223)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>23,000</u>	<u>(23,000)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>456,223</u>	<u>(456,223)</u>
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	-	-	(456,132)	(456,132)
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	<u>-</u>	<u>-</u>	<u>473,000</u>	<u>473,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>473,000</u>	<u>473,000</u>
NET CHANGE IN FUND BALANCE	-	-	16,868	16,868
FUND BALANCE, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,868</u>	<u>\$ 16,868</u>

CITY OF RICHLAND HILLS, TEXAS

SAFE ROUTES TO SCHOOL

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 278,414	\$ 278,414
Total revenues	<u>-</u>	<u>-</u>	<u>278,414</u>	<u>278,414</u>
EXPENDITURES				
Capital outlay	<u>-</u>	<u>-</u>	<u>278,414</u>	<u>(278,414)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>278,414</u>	<u>(278,414)</u>
EXCESS (DEFICIENCIES OVER (UNDER) EXPENDITURES	-	-	-	-
FUND BALANCE, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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**STATISTICAL DATA
(UNAUDITED)**

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Statistical Section

(Unaudited)

This part of the City of Richland Hills, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the City's overall financial health.

	<u>Page Number</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance has changed over time.	75 – 83
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's most significant local revenue source – tax revenue, as well as its ability to generate its property taxes.	84 – 89
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	90 – 96
Demographic and Economic Information These schedules offer demographics and economic indicators to help the reader understand the environment within which the City's financial activities take place.	97 – 98
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	99 – 101

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year. The City implemented Statement 34 in 2004; schedules presenting government-wide information include information beginning in that year.

CITY OF RICHLAND HILLS, TEXAS

NET ASSETS BY COMPONENT

LAST EIGHT FISCAL YEARS

	Fiscal Year		
	2004	2005	2006
Governmental activities:			
Invested in capital assets, net of related debt	\$ 9,760,325	\$ 10,116,134	\$ 9,609,930
Restricted	57,000	58,177	56,693
Unrestricted	<u>4,947,499</u>	<u>4,364,948</u>	<u>4,303,817</u>
Total governmental activities net assets	<u>\$ 14,764,824</u>	<u>\$ 14,539,259</u>	<u>\$ 13,970,440</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 4,943,841	\$ 5,382,901	\$ 5,599,182
Restricted	791,426	871,988	955,912
Unrestricted	<u>1,418,343</u>	<u>1,113,198</u>	<u>1,092,985</u>
Total business-type activities net assets	<u>\$ 7,153,610</u>	<u>\$ 7,368,087</u>	<u>\$ 7,648,079</u>
Primary government:			
Invested in capital assets, net of related debt	\$ 14,704,166	\$ 15,499,035	\$ 15,209,112
Restricted	848,426	930,165	1,012,605
Unrestricted	<u>6,365,842</u>	<u>5,478,146</u>	<u>5,396,802</u>
Total primary government net assets	<u>\$ 21,918,434</u>	<u>\$ 21,907,346</u>	<u>\$ 21,618,519</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

TABLE 1

Fiscal Year				
2007	2008	2009	2010	2011
\$ 8,973,364	\$ 8,565,062	\$ 8,108,808	\$ 8,215,829	\$ 7,815,576
384,137	412,610	439,715	375,753	1,542,536
<u>4,765,358</u>	<u>4,888,559</u>	<u>5,273,862</u>	<u>4,153,765</u>	<u>2,564,977</u>
<u>\$ 14,122,859</u>	<u>\$ 13,866,231</u>	<u>\$ 13,822,385</u>	<u>\$ 12,745,347</u>	<u>\$ 11,923,089</u>
\$ 5,705,248	\$ 5,945,512	\$ 6,093,323	\$ 6,194,852	\$ 7,255,716
1,026,423	1,011,985	1,039,337	1,212,169	-
<u>413,272</u>	<u>(212,675)</u>	<u>18,269</u>	<u>(290,156)</u>	<u>1,170,660</u>
<u>\$ 7,144,943</u>	<u>\$ 6,744,822</u>	<u>\$ 7,150,929</u>	<u>\$ 7,116,865</u>	<u>\$ 8,426,376</u>
\$ 14,678,612	\$ 14,510,574	\$ 14,202,131	\$ 14,410,681	\$ 15,071,292
1,410,560	1,424,595	1,479,052	1,587,922	1,542,536
<u>5,178,630</u>	<u>4,675,884</u>	<u>5,292,131</u>	<u>3,863,609</u>	<u>3,735,637</u>
<u>\$ 21,267,802</u>	<u>\$ 20,611,053</u>	<u>\$ 20,973,314</u>	<u>\$ 19,862,212</u>	<u>\$ 20,349,465</u>

CITY OF RICHLAND HILLS, TEXAS

CHANGES IN NET ASSETS

LAST EIGHT FISCAL YEARS

	Fiscal Year		
	2004	2005	2006
EXPENSES			
Governmental activities:			
General government	\$ 370,519	\$ 457,179	\$ 442,659
Public safety	3,288,139	3,364,721	3,719,164
Public works	1,156,453	1,128,504	1,147,289
Culture and recreation	279,752	292,394	295,554
Parks and beautification	23,299	51,542	39,120
Community development	188,511	83,218	70,075
Interest on long-term debt	74,690	75,836	83,135
Total governmental activities expenses	<u>5,381,363</u>	<u>5,453,394</u>	<u>5,796,996</u>
Business-type activities:			
Water and sewer	2,835,131	2,989,931	3,139,909
Drainage utility	100,884	96,559	88,518
Total business-type activities expenses	<u>2,936,015</u>	<u>3,086,490</u>	<u>3,228,427</u>
Total primary government program expenses	<u>\$ 8,317,378</u>	<u>\$ 8,539,884</u>	<u>\$ 9,025,423</u>
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
General government	\$ 248,913	\$ 297,003	\$ 314,430
Public safety	808,397	773,493	595,129
Public works	-	-	-
Community development	-	-	-
Operating grants and contributions	165,002	107,719	183,081
Capital grants and contributions	130,963	150,505	61,929
Total governmental activities program revenues	<u>1,353,275</u>	<u>1,328,720</u>	<u>1,154,569</u>
Business-type activities:			
Charges for services:			
Water and sewer	2,693,304	2,902,880	3,088,235
Drainage utility	151,488	154,060	152,743
Capital grants and contributions	-	126,000	134,492
Total business-type activities program revenues	<u>2,844,792</u>	<u>3,182,940</u>	<u>3,375,470</u>
Total primary government program revenues	<u>\$ 4,198,067</u>	<u>\$ 4,511,660</u>	<u>\$ 4,530,039</u>

Note:

The City began to report accrued information when it implemented GASB Statement 34 in fiscal year 2004.

TABLE 2

Fiscal Year				
2007	2008	2009	2010	2011
\$ 431,748	\$ 381,991	\$ 396,736	\$ 409,627	\$ 452,544
4,179,157	4,548,288	4,727,024	5,269,229	5,032,257
1,203,362	1,277,037	1,445,582	1,339,330	1,151,899
302,913	329,331	317,101	364,142	453,741
40,783	43,290	46,457	26,670	21,182
100,409	83,792	135,632	126,422	612,100
92,682	91,450	82,847	74,760	56,979
<u>6,351,054</u>	<u>6,755,179</u>	<u>7,151,379</u>	<u>7,610,180</u>	<u>7,780,702</u>
3,472,363	3,519,155	3,564,422	3,904,845	3,845,749
<u>118,124</u>	<u>250,726</u>	<u>134,218</u>	<u>153,742</u>	<u>440,644</u>
<u>3,590,487</u>	<u>3,769,881</u>	<u>3,698,640</u>	<u>4,058,587</u>	<u>4,286,393</u>
\$ <u>9,941,541</u>	\$ <u>10,525,060</u>	\$ <u>10,850,019</u>	\$ <u>11,668,767</u>	\$ <u>12,067,095</u>
\$ 266,339	\$ 257,878	\$ 174,566	\$ 189,645	\$ 279,595
1,271,650	804,512	772,830	816,496	972,419
-	-	-	-	34,245
-	-	-	-	22,887
152,616	179,182	164,926	230,056	268,290
130,204	97,423	352,102	226,239	393,993
<u>1,820,809</u>	<u>1,338,995</u>	<u>1,464,424</u>	<u>1,462,436</u>	<u>1,971,429</u>
2,712,339	3,133,427	3,167,127	3,313,932	4,544,897
155,034	177,406	662,405	691,018	738,144
-	-	-	-	-
<u>2,867,373</u>	<u>3,310,833</u>	<u>3,829,532</u>	<u>4,004,950</u>	<u>5,283,041</u>
\$ <u>4,688,182</u>	\$ <u>4,649,828</u>	\$ <u>5,293,956</u>	\$ <u>5,467,386</u>	\$ <u>7,254,470</u>

(continued)

CITY OF RICHLAND HILLS, TEXAS

**CHANGES IN NET ASSETS
(Continued)
LAST EIGHT FISCAL YEARS**

	Fiscal Year		
	2004	2005	2006
NET (EXPENSE) REVENUES			
Governmental activities	\$(4,028,088)	\$(4,124,674)	\$(4,642,427)
Business-type activities	<u>(91,223)</u>	<u>96,450</u>	<u>147,043</u>
Total primary government net expense	<u>(4,119,311)</u>	<u>(4,028,224)</u>	<u>(4,495,384)</u>
 GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	1,651,585	1,706,980	1,772,300
Sales	1,380,471	1,456,326	1,601,495
Franchise	652,268	436,661	598,861
Hotel occupancy	-	-	-
Investment earnings	41,932	76,521	136,546
Miscellaneous	-	288,683	-
Transfers	<u>-</u>	<u>(66,062)</u>	<u>(35,594)</u>
Total governmental activities	<u>3,726,256</u>	<u>3,899,109</u>	<u>4,073,608</u>
 Business-type activities:			
Investment earnings	27,137	51,965	97,355
Miscellaneous	-	-	-
Transfers	<u>-</u>	<u>66,062</u>	<u>35,594</u>
Total business-type activities	<u>27,137</u>	<u>118,027</u>	<u>132,949</u>
 Total primary government	<u>3,753,393</u>	<u>4,017,136</u>	<u>4,206,557</u>
 CHANGE IN NET ASSETS			
Governmental activities	(301,832)	(225,565)	(568,819)
Business-type activities	<u>(64,086)</u>	<u>214,477</u>	<u>279,992</u>
Total primary government	<u>\$(365,918)</u>	<u>\$(11,088)</u>	<u>\$(288,827)</u>

TABLE 2

Fiscal Year				
2007	2008	2009	2010	2011
\$(4,530,245)	\$(5,416,184)	\$(5,686,955)	\$(6,147,744)	\$(5,809,273)
<u>(723,114)</u>	<u>(459,048)</u>	<u>130,892</u>	<u>(53,637)</u>	<u>996,648</u>
<u>(5,253,359)</u>	<u>(5,875,232)</u>	<u>(5,556,063)</u>	<u>(6,201,381)</u>	<u>(4,812,625)</u>
1,858,628	1,927,273	2,083,969	2,119,563	2,197,570
2,067,016	2,457,930	2,262,356	2,210,327	2,593,770
552,072	543,654	562,590	480,222	509,015
-	-	52,079	121,561	152,597
159,705	64,126	9,476	3,925	3,806
61,441	166,573	938,837	151,306	97,145
<u>(16,198)</u>	<u>-</u>	<u>(266,198)</u>	<u>(16,198)</u>	<u>(300,788)</u>
<u>4,682,664</u>	<u>5,159,556</u>	<u>5,643,109</u>	<u>5,070,706</u>	<u>5,253,115</u>
203,780	58,927	9,017	3,375	6,347
-	-	-	-	5,728
16,198	-	266,198	16,198	300,788
<u>219,978</u>	<u>58,927</u>	<u>275,215</u>	<u>19,573</u>	<u>312,863</u>
<u>4,902,642</u>	<u>5,218,483</u>	<u>5,918,324</u>	<u>5,090,279</u>	<u>5,565,978</u>
152,419	(256,628)	(43,846)	(1,077,038)	(556,158)
<u>(503,136)</u>	<u>(400,121)</u>	<u>406,107</u>	<u>(34,064)</u>	<u>1,309,511</u>
<u>\$(350,717)</u>	<u>\$(656,749)</u>	<u>\$ 362,261</u>	<u>\$(1,111,102)</u>	<u>\$ 753,353</u>

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CITY OF RICHLAND HILLS, TEXAS

**FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Reserved	\$ 73,927	\$ 99,187	\$ 64,074	\$ 65,997	\$ 70,206	\$ 88,573	\$ 94,104	\$ 83,381	\$ 959,203	\$ -
Nonspendable	-	-	-	-	-	-	-	-	-	830,477
Unassigned	-	-	-	-	-	-	-	-	-	1,496,041
Unreserved	<u>2,825,718</u>	<u>2,356,934</u>	<u>2,385,941</u>	<u>2,343,951</u>	<u>2,511,373</u>	<u>2,753,628</u>	<u>2,789,037</u>	<u>2,483,768</u>	<u>1,115,619</u>	<u>-</u>
Total general fund	<u>\$ 2,899,645</u>	<u>\$ 2,456,121</u>	<u>\$ 2,450,015</u>	<u>\$ 2,409,948</u>	<u>\$ 2,581,579</u>	<u>\$ 2,842,201</u>	<u>\$ 2,883,141</u>	<u>\$ 2,567,149</u>	<u>\$ 2,074,822</u>	<u>\$ 2,326,518</u>
All other governmental funds										
Reserved	\$ 37,111	\$ 44,807	\$ 54,928	\$ 50,235	\$ 49,069	\$ 376,513	\$ 403,585	\$ 408,406	\$ 351,107	\$ -
Restricted	-	-	-	-	-	-	-	-	-	1,615,422
Assigned	-	-	-	-	-	-	-	-	-	23,425
Unreserved, reported in:										
Special revenue funds	1,931,730	1,837,296	1,591,364	628,864	721,920	815,053	1,041,506	1,002,259	1,004,795	-
Capital projects funds	<u>791,091</u>	<u>146,531</u>	<u>132,004</u>	<u>543,732</u>	<u>306,243</u>	<u>780,342</u>	<u>209,354</u>	<u>1,033,429</u>	<u>552,409</u>	<u>-</u>
Total all other governmental funds	<u>\$ 2,759,932</u>	<u>\$ 2,028,634</u>	<u>\$ 1,778,296</u>	<u>\$ 1,222,831</u>	<u>\$ 1,077,232</u>	<u>\$ 1,971,908</u>	<u>\$ 1,654,445</u>	<u>\$ 2,444,094</u>	<u>\$ 1,908,311</u>	<u>\$ 1,638,847</u>

CITY OF RICHLAND HILLS, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES										
Taxes	\$ 3,706,679	\$ 3,671,817	\$ 3,695,904	\$ 3,607,405	\$ 3,963,676	\$ 4,420,262	\$ 4,942,857	\$ 4,945,924	\$ 4,935,890	\$ 5,683,400
Fines and forfeitures	340,753	457,871	628,542	601,459	407,187	1,015,339	722,672	614,228	654,673	623,663
Licenses, permits, fees	70,216	67,451	93,345	89,062	109,134	135,319	136,745	69,108	111,859	274,680
Charges for services	159,498	128,366	157,989	270,299	285,603	249,631	237,077	237,184	240,425	253,010
Intergovernmental	477,463	289,046	295,965	258,224	182,962	168,050	166,444	426,644	382,703	499,954
Investment earnings	109,581	58,816	41,932	76,521	136,546	159,705	64,126	9,476	3,925	3,806
Other	60,540	72,626	64,393	378,990	73,952	105,921	231,634	984,144	194,319	191,828
Total revenues	<u>4,924,730</u>	<u>4,745,993</u>	<u>4,978,070</u>	<u>5,281,960</u>	<u>5,159,060</u>	<u>6,254,227</u>	<u>6,501,555</u>	<u>7,286,708</u>	<u>6,523,794</u>	<u>7,530,341</u>
EXPENDITURES										
General government	324,296	354,734	321,629	421,849	535,853	339,869	338,417	358,134	378,811	424,446
Public safety	2,879,483	2,846,957	3,168,141	3,277,700	3,451,450	3,941,780	4,306,075	4,325,390	4,900,216	4,575,681
Public works	509,259	771,691	688,937	1,428,254	326,348	349,109	493,330	656,433	510,250	276,251
Culture and recreation	283,445	252,289	254,129	262,553	276,603	284,706	308,140	293,622	329,463	382,008
Parks and beautification	14,006	13,669	72,567	58,976	40,649	9,311	11,818	16,005	4,256	10,378
Community and developme:	76,482	39,791	184,174	78,523	68,552	91,984	75,688	154,213	197,391	592,442
Capital outlay	1,245,654	1,055,859	269,334	396,212	707,548	321,570	954,855	472,993	913,798	1,235,800
Debt service										
Principal	165,534	373,664	200,000	210,000	200,000	191,000	223,000	242,000	251,000	331,000
Interest	130,910	100,380	75,603	66,662	78,471	83,867	99,393	79,663	71,249	83,958
Bond issuance costs	-	-	-	11,401	12,069	13,500	-	-	-	-
Total expenditures	<u>5,629,069</u>	<u>5,809,034</u>	<u>5,234,514</u>	<u>6,212,130</u>	<u>5,697,543</u>	<u>5,626,696</u>	<u>6,810,716</u>	<u>6,598,453</u>	<u>7,556,434</u>	<u>7,911,964</u>

(continued)

CITY OF RICHLAND HILLS, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (704,339)</u>	<u>\$ (1,063,041)</u>	<u>\$ (256,444)</u>	<u>\$ (930,170)</u>	<u>\$ (538,483)</u>	<u>\$ 627,531</u>	<u>\$ (309,161)</u>	<u>\$ 688,255</u>	<u>\$ (1,032,640)</u>	<u>\$ (381,623)</u>
OTHER FINANCING SOURCES (USES)										
Proceeds from sale of general capital assets	13,898	8,805	-	700	25,546	8,955	32,648	51,600	20,728	40,709
Proceeds from issuance of bonds	350,000	-	-	400,000	415,000	535,000	-	-	-	473,000
Proceeds from insurance r	-	-	-	-	-	-	-	-	-	50,146
Operating transfers in	388,908	617,143	179,153	181,130	122,863	259,808	244,780	260,887	320,113	133,006
Operating transfers out	<u>(485,596)</u>	<u>(737,729)</u>	<u>(179,153)</u>	<u>(247,192)</u>	<u>(158,457)</u>	<u>(276,006)</u>	<u>(244,780)</u>	<u>(527,085)</u>	<u>(336,311)</u>	<u>(333,006)</u>
Total other financing sources (uses)	<u>267,210</u>	<u>(111,781)</u>	<u>-</u>	<u>334,638</u>	<u>404,952</u>	<u>527,757</u>	<u>32,648</u>	<u>(214,598)</u>	<u>4,530</u>	<u>363,855</u>
NET CHANGE IN FUND BALANCES	<u>\$ (437,129)</u>	<u>\$ (1,174,822)</u>	<u>\$ (256,444)</u>	<u>\$ (595,532)</u>	<u>\$ (133,531)</u>	<u>\$ 1,155,288</u>	<u>\$ (276,513)</u>	<u>\$ 473,657</u>	<u>\$ (1,028,110)</u>	<u>\$ (17,768)</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>6.76%</u>	<u>9.97%</u>	<u>5.55%</u>	<u>4.76%</u>	<u>5.58%</u>	<u>5.18%</u>	<u>5.77%</u>	<u>5.40%</u>	<u>5.02%</u>	<u>6.12%</u>

CITY OF RICHLAND HILLS, TEXAS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS (UNAUDITED)

Fiscal Year	Property Tax	Sales Tax	Beverage Tax	Franchise Tax	Hotel Occupancy Tax	Total
2002	\$ 1,505,219	\$ 1,578,938	\$ 1,907	\$ 620,615	\$ -	\$ 3,706,679
2003	1,579,915	1,510,424	1,830	579,648	-	3,671,817
2004	1,646,132	1,438,350	2,216	609,206	-	3,695,904
2005	1,704,550	1,410,246	1,902	490,707	-	3,607,405
2006	1,775,844	1,611,844	1,746	574,242	-	3,963,676
2007	1,861,429	1,997,967	2,102	558,764	-	4,420,262
2008	1,918,082	2,470,907	2,140	551,728	-	4,942,857
2009	2,079,168	2,252,568	1,955	560,154	52,079	4,945,924
2010	2,101,899	2,194,903	1,716	515,811	121,561	4,935,890
2011	2,194,904	2,816,917	1,661	517,321	152,597	5,683,400

TABLE 6

CITY OF RICHLAND HILLS, TEXAS
APPRAISED AND TAXABLE VALUE PROPERTY (1)
LAST TEN FISCAL YEARS

Fiscal Year	Appraised Property Value					Less: Tax-exempt Property	Net Taxable Value	Total Direct Tax Rate
	Residential Property	Commercial Property	Industrial Property	Other Property	Personal Property			
2002	\$ 200,136,951	\$ 70,805,838	\$ 10,362,209	\$ 3,393,872	\$ 88,976,987	\$ 16,577,000	\$ 357,098,857	\$ 0.417333
2003	212,954,732	72,288,710	10,362,209	4,668,596	88,393,600	16,568,803	372,099,044	0.417333
2004	232,221,028	71,893,437	10,370,809	4,362,796	84,216,038	16,367,789	386,696,319	0.428441
2005	238,701,345	74,988,130	10,289,818	3,687,521	75,910,560	16,398,666	387,178,708	0.436297
2006	257,185,035	79,703,585	11,691,714	3,273,159	78,292,805	23,779,179	406,367,119	0.435898
2007	267,292,330	76,414,116	9,490,948	3,081,828	86,566,380	24,127,523	418,718,079	0.442094
2008	263,989,606	84,778,256	9,904,412	578,752	87,309,399	22,812,614	423,747,811	0.456700
2009	277,842,821	88,909,432	10,479,108	272,405	95,675,055	25,027,659	448,151,162	0.459202
2010	284,264,270	105,533,139	10,743,321	237,868	90,162,865	35,902,483	455,038,980	0.473042
2011	268,570,340	114,245,698	10,064,358	507,056	73,756,974	35,562,818	431,581,608	0.518012

Source: (1) Tarrant Appraisal District

TABLE 7

CITY OF RICHLAND HILLS, TEXAS

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

LAST TEN FISCAL YEARS

Fiscal Year	City of Richland Hills			Birdville Independent School District	Tarrant County	Hospital District	Junior College	Total Levy
	Operations	Debt Service	Total					
2002	\$ 0.379386	\$ 0.037947	\$ 0.417333	\$ 1.569800	\$ 0.274785	\$ 0.234070	\$ 0.106410	\$ 2.602398
2003	0.375221	0.042112	0.417333	1.617000	0.272500	0.232400	0.139380	2.678613
2004	0.388374	0.040067	0.428441	1.617000	0.292500	0.235400	0.139580	2.712921
2005	0.398093	0.038204	0.436297	1.617000	0.272500	0.235397	0.139380	2.700574
2006	0.398218	0.037680	0.435898	1.617000	0.272500	0.235397	0.139380	2.700175
2007	0.401180	0.040914	0.442094	1.565000	0.217500	0.235397	0.139383	2.599374
2008	0.398000	0.052670	0.450670	1.405000	0.264000	0.227897	0.139600	2.487167
2009	0.408773	0.050429	0.459202	1.410000	0.264000	0.227897	0.137960	2.499059
2010	0.423707	0.049335	0.473042	1.405000	0.264000	0.227897	0.137670	2.507609
2011	0.466951	0.051061	0.518012	1.425000	0.264000	0.227897	0.137640	2.572549

TABLE 8

CITY OF RICHLAND HILLS, TEXAS

TOP TEN TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	Nature of Business	2011		2001			
		2011 Taxable Assessed Valuation	Rank	Percentage of Total City Taxable Assessed Valuation (1)	2001 Taxable Assessed Valuation*	Rank	Percentage of Total City Taxable Assessed Valuation (1)
First Industrial, LP	Real Estate/Commercial	\$ 12,020,694	1	2.8%	\$ 8,036,986	3	2.3%
Southwestern Bell	Utility	8,567,481	2	2.0%	13,696,685	1	3.8%
CNN Churchill III	Hotel	5,659,087	3	1.3%	-	-	- %
Oncor Electric Delivery Co.	Utility	4,579,664	4	1.1%	3,717,398	8	1.0%
Nuclear Logistics Inc.	Retailer	4,115,122	5	1.0%	-	-	- %
Stuart C Irby Company	Retailer	4,044,592	6	0.9%	-	-	- %
E L Baker Jr LTD	Real Estate/Commercial	3,981,005	7	0.9%	-	-	- %
Regency Raintree	Apartments	3,775,000	8	0.9%	4,451,892	6	1.2%
AHC Richland Hills	Apartments	3,198,197	9	0.7%	-	-	- %
Composites One LLC	Retailer	2,662,489	10	0.6%	-	-	- %
Enkei International Inc	Retailer	-	-	- %	4,679,267	5	1.3%
Plas-Tex Inc	Retailer	-	-	- %	3,291,701	9	0.9%
Freemeyer Industrial	Retailer	-	-	- %	3,748,601	7	1.0%
NH Texas Properties Ltd	Real Estate/Commercial	-	-	- %	3,146,151	10	0.9%
Carlyle/Dr Investors, LLC	Real Estate/Commercial	-	-	- %	8,956,446	2	2.5%
Cummins Utility	Distributor	-	-	- %	6,146,538	4	1.7%
Total assessed value of ten largest taxpayers		52,603,331		12.2%	59,871,665		16.8%
Total assessed value of other taxpayers		<u>378,978,277</u>		<u>87.8%</u>	<u>297,227,192</u>		<u>83.2%</u>
Total assessed value of all taxpayers		<u>\$ 431,581,608</u>		<u>100.0%</u>	<u>\$ 357,098,857</u>		<u>100.0%</u>

Source: Tarrant Appraisal District
Taxpayers assessed on January 1, 2010 (2010 tax year for the 2010-2011 fiscal year).

Note: (1) Calculated based on net taxable value.

TABLE 9

CITY OF RICHLAND HILLS, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Collections</u>	<u>Delinquent Taxes to Tax Levy</u>
2002	\$ 1,488,972	\$ 1,457,801	97.9%	\$ 22,151	\$ 1,479,952	99.4%	\$ 71,926	4.8%
2003	1,561,856	1,532,064	98.1%	27,069	1,559,133	99.8%	105,475	6.8%
2004	1,644,836	1,603,413	97.5%	23,543	1,626,956	98.9%	122,599	7.5%
2005	1,689,249	1,655,590	98.0%	27,702	1,683,292	99.6%	126,072	7.5%
2006	1,751,452	1,723,421	98.4%	26,851	1,750,272	99.9%	121,009	6.9%
2007	1,844,254	1,819,972	98.7%	19,966	1,839,938	99.8%	116,610	6.3%
2008	1,910,234	1,879,312	98.4%	17,681	1,896,993	99.3%	129,927	6.8%
2009	2,064,779	2,030,068	98.3%	22,357	2,052,425	99.4%	136,798	6.6%
2010	2,134,498	2,086,380	97.7%	(9,828)	2,076,552	97.3%	162,118	7.6%
2011	2,177,631	2,138,363	98.2%	29,056	2,167,419	99.5%	166,039	7.6%

CITY OF RICHLAND HILLS, TEXAS

TAXABLE SALES BY CATEGORY

LAST NINE YEARS (UNAUDITED)

	Calendar Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Construction	\$ 3,549,586	\$ 20,021,534	\$ 22,892,652	\$ 17,936,621	\$ 20,794,398	\$ 18,374,108	\$ 23,881,380	\$ 18,886,577	\$ 11,828,234
Manufacturing	6,612,753	4,423,652	7,812,885	11,187,900	10,257,696	7,914,159	6,347,714	5,661,817	5,675,971
Wholesale trade	15,105,514	21,497,139	19,761,013	29,854,627	38,193,847	41,068,220	50,674,366	38,372,556	43,096,545
Retail trade	15,305,478	13,340,753	11,954,491	11,342,161	10,063,701	8,905,776	8,887,046	8,542,823	8,262,102
Transportation/warehousing	4,095	2,377	8,706	12,063	7,006	3,389	-	8,824	5,502
Information	1,430,793	1,619,087	790,851	2,118,919	513,669	67,028	1,085,520	5,565,666	6,666,544
Real estate/rental/leasing	-	-	-	10,319	9,732	11,003	40,147	39,202	175,225
Professional/scientific/ technical services	4,231,931	2,667,761	2,346,570	2,891,198	3,963,816	4,413,397	3,306,050	3,225,222	1,863,805
Administrative/waste management/ remediation services	17,968,990	41,394,904	36,258,379	24,200,832	5,720,616	44,681,341	41,635,997	43,055,087	43,444,315
Educational services	2,178	-	83	5,085	282	459	-	1,721	5,830
Health care/social assistance	-	-	-	-	1,761	72,425	85,876	28,975	13,583
Arts/entertainment/recreation	18,664	85,447	-	-	23,821	32,869	9,816	-	-
Accommodation/food services	6,247,519	6,162,115	5,881,429	5,476,129	5,520,323	5,855,259	5,918,261	5,800,883	5,661,702
Other services	4,407,324	4,003,424	3,913,483	3,855,000	3,046,218	3,670,592	5,752,124	6,835,836	7,748,713
Other	82,100	75,154	138,434	-	-	-	-	-	1,397,279
Total	\$ 74,966,925	\$ 115,293,347	\$ 111,758,976	\$ 108,890,854	\$ 98,116,886	\$ 135,070,025	\$ 147,624,297	\$ 136,025,189	\$ 135,845,350
City direct sales tax rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: Texas Comptroller of Public Accounts

CITY OF RICHLAND HILLS, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities					Business-type Activities		
	General Obligation Bonds	Combination Tax and Revenue Certificates of Obligation	Public Property Finance Contractual Obligations	Tax Note	Lease/Purchases	Revenue Bonds	Combination Tax and Revenue Certificates of Obligation	Lease/Purchases
2002	\$ 185,000	\$ 1,285,000	\$ 300,000	\$ -	\$ 183,644	\$ 2,000,000	\$ 3,480,000	\$ -
2003	125,000	1,225,000	230,000	-	-	1,975,000	3,335,000	-
2004	65,000	1,160,000	155,000	-	-	1,910,000	3,180,000	-
2005	-	1,090,000	80,000	400,000	-	1,840,000	3,020,000	-
2006	-	1,015,000	-	770,000	-	1,765,000	2,850,000	-
2007	-	935,000	535,000	659,000	-	1,690,000	4,780,000	423,513
2008	-	855,000	515,000	536,000	-	1,610,000	4,515,000	384,306
2009	-	770,000	485,000	409,000	-	1,525,000	4,245,000	343,336
2010	-	680,000	455,000	278,000	-	1,435,000	6,710,000	300,521
2011	-	580,000	425,000	77,000	-	1,340,000	6,360,000	255,780

TABLE 11

<u>Total Government- Wide Indebtedness</u>	<u>Estimated Population</u>	<u>Total Debt Per Capita</u>	<u>Per Capita Income</u>	<u>Per Capita Debt as Percent of Per Capita Income</u>
\$ 7,433,644	N/A	N/A	N/A	N/A
6,890,000	N/A	N/A	N/A	N/A
6,470,000	8,300	779.52	20,247	3.85%
6,430,000	8,300	774.70	20,247	3.83%
6,400,000	8,300	771.08	20,247	3.81%
9,022,513	8,300	1,087.05	20,247	5.37%
8,415,306	8,300	1,007.82	20,247	4.98%
7,777,336	8,300	931.42	20,247	4.60%
9,858,521	8,094	1,218.00	22,682	5.37%
9,037,780	7,800	1,158.69	22,682	5.11%

CITY OF RICHLAND HILLS, TEXAS

RATIOS OF GENERAL BONDED DEBT ASSESSED VALUE
AND NET GENERAL BONDED DEBT PER CAPITA

LAST TEN FISCAL YEARS

Fiscal Year	Estimated Population**	Assessed Value *(1)	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2002	8,500	\$ 357,098,857	\$ 485,000	\$ 37,111	\$ 447,889	0.14%	\$ 52.69
2003	8,132	372,099,044	355,000	44,807	310,193	0.08%	38.14
2004	8,132	386,696,319	220,000	48,976	171,024	0.04%	21.03
2005	8,300	387,178,708	480,000	50,235	429,765	0.11%	51.78
2006	8,300	406,367,119	770,000	49,069	720,931	0.18%	86.86
2007	8,300	418,718,079	1,194,000	75,409	1,118,591	0.27%	134.77
2008	8,300	423,747,811	1,051,000	100,322	950,678	0.22%	114.54
2009	8,300	448,151,016	894,000	132,211	761,789	0.17%	91.78
2010	8,094	455,038,980	733,000	134,841	598,159	0.13%	73.90
2011	7,800	431,581,608	502,000	92,309	409,691	0.09%	52.52

*Source: Tarrant Appraisal District

**Source: North Central Texas Council of Governments

Note: (1) Excludes revenue bonds

CITY OF RICHLAND HILLS, TEXAS

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL BONDED DEBT TO GENERAL EXPENDITURES

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Debt Service</u>	<u>Total General Expenditures (1)</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
2002	\$ 165,534	\$ 117,760	\$ 283,294	\$ 5,629,069	5.03%
2003	373,664	100,380	474,044	5,672,587	8.36%
2004	200,000	75,603	275,603	5,234,514	5.27%
2005	210,000	66,662	276,662	6,212,130	4.45%
2006	200,000	78,471	278,471	5,697,543	4.89%
2007	191,000	83,867	274,867	5,626,696	4.89%
2008	223,000	99,393	322,393	6,810,716	4.73%
2009	242,000	79,663	321,663	6,598,453	4.87%
2010	251,000	71,249	322,249	7,556,434	4.26%
2011	331,000	60,958	391,958	7,911,964	4.95%

Note: (1) Includes general, special revenue, debt service, and capital projects funds.

CITY OF RICHLAND HILLS, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
SEPTEMBER 30, 2011 (UNAUDITED)

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Richland Hills	\$ 502,000	100.000%	\$ <u>502,000</u>
Total direct debt			<u>502,000</u>
Birdville Independent School District	227,199,554	7.40%	16,812,767
Tarrant County Junior College	27,327,139	0.66%	180,359
Tarrant County Hospital District	58,565,000	0.66%	386,529
Tarrant County	333,561,836	0.66%	<u>2,201,508</u>
Total overlapping debt			<u>19,581,163</u>
Total direct and overlapping debt			<u>\$ <u>20,083,163</u></u>

CITY OF RICHLAND HILLS, TEXAS
SCHEDULE OF REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2002	\$ 2,908,087	\$ 2,406,832	\$ 501,255	\$ 265,000	\$ 131,971	\$ 396,971	1.26
2003	2,927,497	2,393,652	533,845	170,000	272,333	442,333	1.21
2004	2,871,929	2,458,949	412,980	220,000	222,484	442,484	0.93
2005	3,108,905	2,616,366	492,539	230,000	213,775	443,775	1.11
2006	3,343,333	2,060,334	1,282,999	245,000	204,527	449,527	2.85
2007	2,944,485	2,889,517	54,968	309,678	225,955	535,633	0.10
2008	3,184,647	2,833,896	350,751	384,207	284,618	668,825	0.52
2009	3,175,814	2,865,189	310,625	395,971	269,079	665,050	0.47
2010	3,316,466	3,158,012	158,454	417,814	252,796	670,610	0.24
2011	4,552,311	3,092,824	1,459,487	439,741	235,405	675,146	2.16

Notes: (1) Includes operating revenue, interest on investments, loss on sale and/or gain on disposal of property, plant and equipment.

(2) Excludes depreciation

CITY OF RICHLAND HILLS, TEXAS
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2011 (UNAUDITED)

Article XI, Section 5 of the State of Texas Constitution states in part:

"...no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city."

As a home rule city, the City of Richland Hills is not limited by the law in the amount of debt it may issue. The City's charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation bonds.

The tax rate for fiscal year 2011 was established at \$.518012 per \$100 of assessed valuation based on 100% of appraised value.

CITY OF RICHLAND HILLS, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST EIGHT FISCAL YEARS

<u>Year</u>	<u>Estimated Population</u>	<u>Median Household Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemploymen Rate</u>
2004	8,132	\$ 43,377	\$ 20,247	22,449	3.8%
2005	8,300	43,377	20,247	22,297	4.5%
2006	8,300	43,377	20,247	22,482	4.2%
2007	8,300	43,377	20,247	22,488	3.9%
2008	8,350	43,377	20,247	21,926	5.8%
2009	8,350	43,377	20,247	22,505	8.0%
2010	8,094	46,918	22,682	22,803	8.0%
2011	7,800	46,918	22,682	22,803	7.8%

Source: U. S. Census Bureau
North Central Texas Council of Governments
Texas Workforce Commission
Birdville ISD

Note: Information unavailable for years prior to 2004

CITY OF RICHLAND HILLS, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Name of Company	Nature of Business	2011			2001		
		Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Birdville ISD (3 schools)	Independent School District	178	1	3.5%	150	2	1.9%
Harris Packing	Corrugated boxes	135	2	2.6%	-		- %
Lexington Place Nursing and Rehabilitation Services	Nursing and personal care	104	3	2.0%	-		- %
Nuclear Logistics	Chemical Engineering Services	100	4	2.0%	-		- %
City of Richland Hills	Municipality	84	5	1.6%	81	8	1.0%
Richland Hills Nursing Home	Nursing and personal care	73	6	1.4%	85	9	1.1%
Royal Bath	Plastic Plumbing Fixture Mfg.	72	7	1.4%	-		- %
TrugreenChemlawn	Landscape and Horticulture	60	8	1.2%			
Alterra Health Care Corporation	Nursing and personal care	60	9	1.2%	65	10	0.8%
Atlantic Air	Heating and air conditioning equipment	55	10	1.1%	-		- %
Dyna Ten Company	Plumbing, heating, air conditioning	-		- %	275	1	3.5%
Nesbitt Building Maintenance, Inc.	Cleaning, maintenance service	-		- %	125	3	1.6%
Hamilton Form Company	Industrial machinery and equipment	-		- %	100	4	1.3%
Security Link	Business services, miscellaneous	-		- %	100	5	1.3%
Harris Packaging	Corrugated boxes	-		- %	90	6	1.1%
Dynamo Limited	Video games manufacturer	-		- %	85	7	1.1%
		<u>921</u>		<u>18.0%</u>	<u>1,156</u>		<u>14.7%</u>

Sources: City records
North Central Texas Council of Governments

TABLE 19

CITY OF RICHLAND HILLS, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST EIGHT FISCAL YEARS

Function/Program	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
Police								
Physical arrests	702	699	621	683	500	503	597	542
Number of law violations	555	470	271	539	3,396	3,885	3,511	3,693
Fire								
Number of fire runs	595	569	475	613	612	541	543	480
Number of EMS runs	1,064	1,252	897	807	845	813	920	889
Public Works - Streets								
Street resurfacing (miles)	0.5	0.6	0.5	0.3	0.3	0.2	1.4	23.0
Potholes repaired	130	132	128	134	118	123	123	184
Public Works - Water/Wastewater								
New connections	293	374	396	477	468	453	414	21
Water main breaks	22	19	24	23	26	25	43	18
Average daily consumption (thousand of gallons)	893	1,023	831	806	925	921	836	955
Peak daily consumption (thousand of gallons)	0.976	1.13	1.43	1.22	1.80	1.61	1.552	1,670.000
Average daily sewer treatment (thousand of gallons)	991	1,120	977	1,381	902	880	1,499	688
Library								
Volumes collection	37,042	38,858	38,476	38,721	39,393	37,954	37,562	41,310
Total volumes borrowed	48,300	45,816	41,544	35,004	40,056	42,288	36,398	39,208

Source: Various City departments

Information unavailable for years prior to 2004

CITY OF RICHLAND HILLS, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST EIGHT FISCAL YEARS

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011
Police								
Stations	1	1	1	1	1	1	1	1
Patrol units	10	10	11	11	11	11	11	11
Fire								
Stations	1	1	1	1	1	1	1	1
Fire trucks	2	2	2	2	2	2	2	2
Ambulances	1	1	1	1	1	1	1	1
Public Works - Streets								
Streets (miles)	43.51	43.51	43.51	43.51	43.51	43.51	43.51	43.51
Street lights	462	462	462	462	462	462	462	462
Traffic signals	9	9	9	9	9	9	9	9
Public Works - Water/Wastewater								
Water mains (miles)	47	47	47	47	47	47	47	47
Fire hydrants	350	350	350	350	350	350	350	350
Storage capacity (thousand of gallons)	2,360	2,360	2,360	2,360	2,360	2,360	2,360	2,360
Sanitary sewer (miles)	60	60	60	60	60	60	60	60
Storm sewers (miles)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Culture and Recreation								
Parks	4	4	4	4	4	4	4	4
Parks acreage	12.1	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Community center	1	1	1	1	1	1	1	1
Playgrounds	3	3	3	3	3	3	3	3

Source: Various City departments

CITY OF RICHLAND HILLS, TEXAS

**FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM**

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Administration	5	5	5	5	6	6	6	6	6	6
City secretary	1	1	1	1	1	1	1	1	1	1
Community development	3	3	3	3	2	2	2	2	3	3
Economic development	1	1	1	1	-	-	-	1	1	1
Animal services	2	2	2	2	2	2	2	2	2	2
Public safety										
Police	26	26	27	27	29	29	29	29	29	30
Fire	17	17	17	17	17	17	17	17	17	16
Municipal court	3	3	3	3	3	3	3	3	3	2
Streets	3	3	3	3	2	3	3	3	3	-
Culture and recreation										
Library	7	7	7	7	7	7	7	7	7	7
Community center	1	1	1	1	1	1	1	1	1	1
Water and sewer	10	10	10	10	10	10	10	10	10	10
Drainage	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>
Total	<u>81</u>	<u>81</u>	<u>82</u>	<u>82</u>	<u>82</u>	<u>83</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>84</u>

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**OVERALL COMPLIANCE AND
INTERNAL CONTROL SECTION**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of City Council
City of Richland Hills, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richland Hills, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 31, 2012. 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.

Internal Control Over Financial Reporting

Management of the City of Richland Hills, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Richland Hills' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses, 2011-1 through 2011-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Richland Hills' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Richland Hills in a separate letter dated March 31, 2011.

The City of Richland Hills' responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

March 31, 2012

CITY OF RICHLAND HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Item 2011-1:	Security of Signature Stamp
<u>Condition:</u>	During PBH's walkthrough of controls for Municipal Court, PBH noted that judgments for dismissals and judgments in which the defendant pleads guilty are stamped with the judge's signature. Upon further review, PBH noted the signature stamp is located in the marshal's office unsecured. The marshal has access to the municipal court system and all cases as he collects payment when the municipal court clerk is out of the office.
<u>Criteria:</u>	Signature stamps should be properly safeguarded with limited access to personnel.
<u>Cause:</u>	During court, the volume of signatures necessary requires the use of a stamp which is used in the judge's presence.
<u>Effect:</u>	Unauthorized use of the signature stamp can result in fraudulent activity.
<u>Recommendation:</u>	PBH recommends the signature stamp should be kept in a secured location with limited access by office personnel. A signature stamp should only be available to the person whose signature is on the stamp. This control will help prevent unauthorized use of the signature stamp for court documents.
<u>Management's Response:</u>	The City agreed that procedures should be implemented so to mitigate unauthorized use of judge's signature stamp.
<u>Contact Person Responsible for Corrective Action:</u>	Barbara Mann, Finance/Accounting Manager
<u>Anticipated Completion Date:</u>	September 30, 2012

(continued)

CITY OF RICHLAND HILLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Item 2011-2:	Purchase Order Use
<u>Condition:</u>	Purchase orders are not being used throughout the City. Per adopted purchasing policy, all purchases of \$100 and up generally require a purchase order.
<u>Criteria:</u>	Proper review of requested purchases helps prevent unauthorized purchases and misuse of funds.
<u>Cause:</u>	In the absence of a purchasing department or purchasing agent, individual departments are in charge of their own purchasing.
<u>Effect:</u>	Misuse of funds, fraudulent activity can go undetected for a period of time
<u>Recommendation:</u>	PBH recommends purchase orders be used on a consistent basis for purchases of \$100 and up per the purchasing policy. PBH also recommends finance to review and approve purchase orders prior to purchase for budgeted funds and reasonableness of purchase.
<u>Management's Response:</u>	The City agreed that procedures should be using purchase orders to deter misuse of funds.
<u>Contact Person Responsible for Corrective Action:</u>	Barbara Mann, Finance/Accounting Manager
<u>Anticipated Completion Date:</u>	September 30, 2012

(continued)

CITY OF RICHLAND HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2011

Item 2011-3:	Segregation of Duties
<u>Condition:</u>	During PBH's walkthrough of controls over accounts payable, PBH noted some areas in which proper segregation of duties can be improved: <ol style="list-style-type: none">1. The accounting clerk prepares all deposits for the city and takes in payments for the utility department as needed.2. The accounting manager who makes all entries to the GL has the ability to take in payments for the utility department.3. The accounting manager prints all checks and also has the ability to input new vendors.
<u>Criteria:</u>	An essential element of any preventive control system is a segregation of duties in such a manner so that no single individual could perpetrate an error and conceal it without being discovered on a timely basis.
<u>Cause:</u>	Due to the size and nature of the entity, proper segregation of duties can be difficult to achieve.
<u>Effect:</u>	Without proper segregation of duties, the City is increasing its exposure to fraud risk.
<u>Recommendation:</u>	For the protection of the City and the City's personnel, PBH recommends: <ol style="list-style-type: none">1. The accounting clerk, who prepares all deposits, should not accept payments from customers.2. The accounting manager, who posts all entries to the GL, should be removed from the cash handling process.3. Access to input new vendors should be limited to the accounting clerk.
<u>Management's Response:</u>	The City agreed that policies should be implemented to improve segregation of duties and decrease exposure to risks.
<u>Contact Person Responsible for Corrective Action:</u>	Barbara Mann, Finance/Accounting Manager
<u>Anticipated Completion Date:</u>	September 30, 2012

(continued)

CITY OF RICHLAND HILLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2011

Item 2011-4:	Capital Assets
<u>Condition:</u>	A listing of capital assets and related accumulated depreciation should be maintained by the City's management to ensure accurate information is available for financial reporting in accordance with generally accepted accounting standards.
<u>Criteria:</u>	A listing of capital assets and related accumulated depreciation was available from the prior year auditors, but was not available from the City's management.
<u>Cause:</u>	The City relied on their previous auditors to maintain their capital asset listing.
<u>Effect:</u>	A listing of capital assets and related accumulated depreciation was not maintained by the City's management throughout the fiscal year to ensure accurate information is available for financial reporting in accordance with generally accepted accounting standards.
<u>Recommendation:</u>	The City should implement procedures to ensure a capital asset listing is maintained by the City's management. Additionally, an inventory of capital assets should be performed at least every two years and reconciled to the capital asset listing.
<u>Management's Response:</u>	The City agreed that it should be keeping track of capital assets and will implement procedures to do so going forward.
<u>Contact Person Responsible for Corrective Action:</u>	Barbara Mann, Finance/Accounting Manager
<u>Anticipated Completion Date:</u>	September 30, 2012