



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2008**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF STEPHENVILLE, TEXAS**

CITY OF STEPHENVILLE, TEXAS
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INTRODUCTORY SECTION

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December 31, 2008

The Honorable Mayor, City Council and the Citizens of the City of Stephenville

The City of Stephenville (City) Financial Management Policies requires that the City's Finance Department prepare a complete set of financial statement presented in conformity with the generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report for the City of Stephenville, Texas for the fiscal year ended September 30, 2008, is hereby issued.

This report consists of management's representations concerning the finances of the City. 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 representations, the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2008, are free of material misstatements. 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's financial statements for the fiscal year ended September 30, 2008, 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.

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

Profile of the City

The City was incorporated in 1889 and chartered a home-rule city under Texas law in 1961. The City occupies approximately 11.79 square miles and serves a population of about 17,428. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate city limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing Council consisting of the Mayor and eight (8) Council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Administrator. The City Administrator is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing head of various departments. The Mayor and City Council members serve two (2) year terms. All elected officials are elected at-large.

The basic financial statements of the City include all governmental activities, organizations and functions for which the City is financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria, no other governmental organizations are included in this report.

Services Provided. The City provides a full range of services, including public safety (police, fire and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated water distribution system and both sanitary and storm sewer collection and transmission systems, recreational activities and cultural events, landfill operations, airport facility maintenance as well as general administrative services.

Economic Conditions and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader of the specific environment within which the City operates.

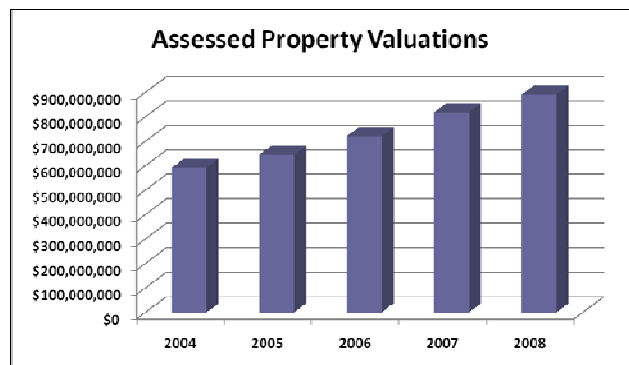
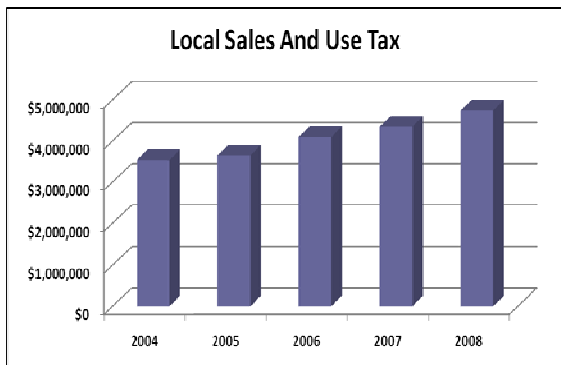
Local Economy. The City currently enjoys a stable economic environment, bolstered by the strength of both Cross Timbers area and the State of Texas. Stephenville continues to act as a retail hub of the area. While many cities in the state are seeing the effect of a downturn in their economy, Stephenville has maintained its stable economic position. Strong property values, sales tax receipts and building activity are key indicators of the strength of the City's economic position.

The following facts reflect Stephenville's economic condition and outlook:

Property valuations increased by \$99 million (8.84%) in 2008 to \$890 million. Residential and commercial activity continues to be strong. With new residential building lots going on line this year and commercial buildings currently under construction, all signs point to property valuations continuing to increase.

The property tax rate is \$.4350, a reduction from the past three (3) years.

Sales tax collections continue to experience growth this year showing a 9.05% increase over the previous year.



Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation of the City's financial planning and control. The City Charter provides that the City Council shall adopt the annual budget prepared by the City Administrator. The proposed budget must be submitted to the City Secretary no later than August 1st with the adoption taking place no later than September 23rd. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the departmental level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to the departmental management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

Budget-to-actual comparisons are provided in this report for the General Fund on pages 16 – 18.

Long Range Planning/Financial Management. Users of this document, as well as others interested in the programs and services offered by the City of Stephenville, are encouraged to read the City's Fiscal Year 2008–2009 Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. Also available for reference is the City of Stephenville's Comprehensive Plan, which was adopted in 2006, and maps out the City's future strategies.

The City's ability to respond to ongoing economic challenges will require careful long-range planning. The City has responded by fiscal conservatism and implementing operating budget efficiencies that have resulted in its maintaining healthy fund balances in its General Fund and water/wastewater funds.

Debt Management. The City has been funding its capital program from current revenues and surplus working capital since 1996.

Cash Management. The City utilizes its bank depository contract and its investment policy in the management of all cash. Under the bank depository contract, the City operating account earns the bank's public fund interest rate. During the fiscal year ended September 30, 2008, the average rate on the operating account balances was 3.51 percent. The City's investment policy embraces current state regulations on the investment of public funds and authorizes the City to invest in certificates of deposits from the bank depository, direct obligations of the United States Government, obligations of an agency of the United States Government and local government investment pools. The combination of these investment vehicles provided a weighted average return of 3.45 percent over the fiscal year. The City requires that all deposits be collateralized with securities held in joint accounts at First Financial Bank of Stephenville. Collateral is monitored monthly to ensure that the market value of the pledged securities equals or exceeds the related deposit or investment balance. Investments are always executed delivery-versus-payment method. That is, funds are not wired or paid until verification has been made that the correct security has been received. Securities are held on behalf of the City by the City's agent. All collateral shall be subject to verification and audit by the Finance Director and the City's independent auditors.

Tax Appraisal/Collection Responsibilities. Under Texas law enacted in 1979, and subsequent revisions of the State Property Tax Code, the appraised value of taxable property in Stephenville is established by the Erath County Appraisal District. The City of Stephenville and other taxing jurisdictions in Erath County provide a pro rata share of the budgeted expenditures incurred by the Appraisal District, based on individual levy. Erath County Tax Assessor-Collector provides tax collection services for the City and other taxing jurisdictions in Erath County.

Risk Management. Risk management within the City is a joint effort of all City department heads in coordination with the City's property and casualty insurance provider. Under a contractual arrangement, the City's facilities, procedures and claims are reviewed and evaluated by the loss prevention representative with the insurance provider. The representative and department heads address areas of needs as identified through both external and internal analysis.

The minimizing of risk is addressed through employee training in the form of training films, safety courses and on-site instruction.

The City purchases liability insurance with limits of \$2 million for all exposures. The City also purchases workers' compensation coverage through a public entity insurance pool.

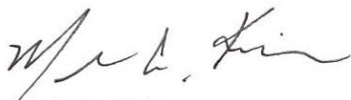
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Stephenville for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007.

The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports. This award was the 25th consecutive year that the City of Stephenville has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit 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.

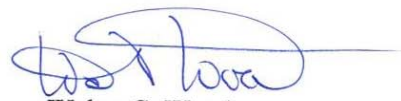
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the City. We would like to express our appreciation to all staff members who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,



Mark A. Kaiser
City Administrator



Walter G. Wood
Director Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Stephenville
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

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.

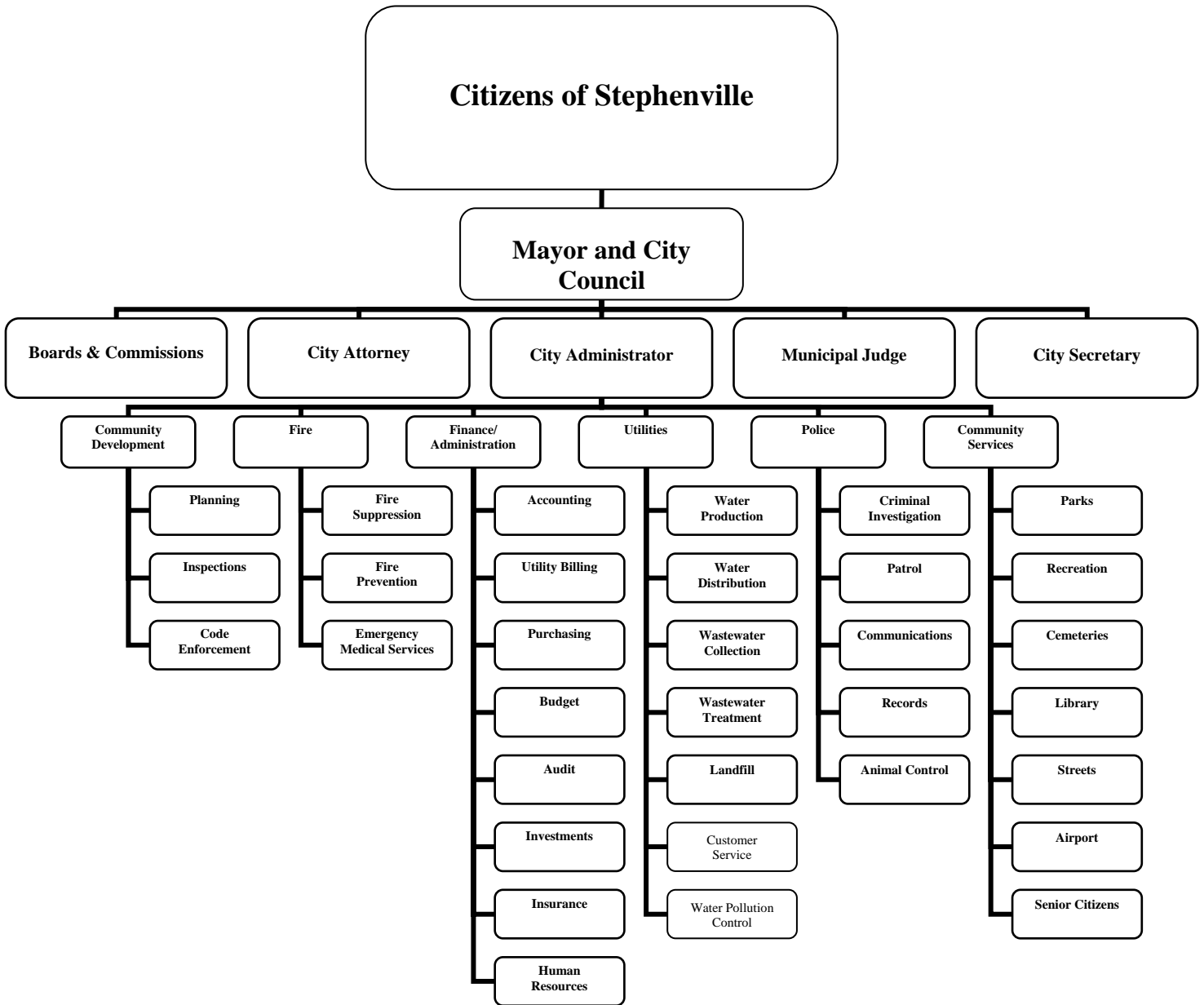


President

Executive Director

CITY OF STEPHENVILLE, TEXAS

ORGANIZATION CHART



CITY OF STEPHENVILLE, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2008

Mayor	Nancy A. Hunter
Council Members	Pat Shelbourne
	Dr. Malcom L. Cross
	Don Zelman
	Russ McDaniel
	Alan Nash
	Alan Nix
	Mark Murphy
	Scott Evans
City Administrator	Mark A. Kaiser
Director of Finance/Administration	Walter G. Wood
Director of Utilities	Nick Williams
Director of Community Development	Betty Chew
Police Chief	Roy Halsell
Fire Chief	Jimmy Chew
Director of Community Services	Drew Wells
City Secretary	Cindy Stafford

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Stephenville, 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 City of Stephenville, Texas, as of and for the year ended September 30, 2008, 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 Stephenville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Stephenville, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund 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 December 31, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stephenville, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

December 31, 2008

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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Management's Discussion and Analysis

As management of the City of Stephenville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008. 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 exceed its liabilities as of September 30, 2008, by \$52,037,515 (net assets). Of this amount, \$19,340,729 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$3,963,687.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,433,889. Approximately 99 percent of this total amount, \$12,335,983 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2008, unreserved fund balance for the General Fund was \$9,555,553 or 83 percent 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, which begin on page 11 of this report, 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 fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensation absences.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, library, cemetery, culture and recreation, and community development. The business-type activities of the City include water, wastewater, storm water drainage, solid waste, and airport operations.

The government-wide financial statements can be found on pages 11 – 12 of this report.

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

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

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

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for 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 fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the Enterprise Funds to account for water, wastewater, storm water drainage, solid waste, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 19 – 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 45 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements.

The combining fund statements and schedules for nonmajor funds are presented immediately following the notes to the financial statements beginning on page 46 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 \$52,037,515 as of September 30, 2008.

A large portion of the City's net assets (61 percent) reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The investments in capital assets net of related debt increased by \$5,023,082. 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 the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF STEPHENVILLE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 13,278,949	\$ 12,260,995	\$ 13,379,464	\$ 14,673,646	\$ 26,658,413	\$ 26,934,641
Capital assets	12,503,386	11,297,475	43,654,085	36,609,064	56,157,471	47,906,539
Total assets	<u>25,782,335</u>	<u>23,558,470</u>	<u>57,033,549</u>	<u>51,282,710</u>	<u>82,815,884</u>	<u>74,841,180</u>
Liabilities	505,850	456,989	2,034,031	1,607,361	2,539,881	2,064,350
Noncurrent liabilities	2,203,494	1,344,753	26,034,994	23,358,249	28,238,488	24,703,002
Total liabilities	<u>2,709,344</u>	<u>1,801,742</u>	<u>28,069,025</u>	<u>24,965,610</u>	<u>30,778,369</u>	<u>26,767,352</u>
Net assets:						
Invested in capital assets, net of related debt	10,513,386	10,157,475	21,231,388	16,564,217	31,744,774	26,721,692
Restricted	397,365	366,934	554,647	665,099	952,012	1,032,033
Unrestricted	<u>12,162,240</u>	<u>11,232,319</u>	<u>7,178,489</u>	<u>9,087,784</u>	<u>19,340,729</u>	<u>20,320,103</u>
Total net assets	<u>\$ 23,072,991</u>	<u>\$ 21,756,728</u>	<u>\$ 28,964,524</u>	<u>\$ 26,317,100</u>	<u>\$ 52,037,515</u>	<u>\$ 48,073,828</u>

An additional portion of the City's assets (two percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$19,340,729 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year. Overall, the City had an increase in net assets of \$3,963,687.

Governmental Activities. Governmental activities increased the City's net assets by \$1,316,263 or 33 percent of the total growth in net assets. The net assets invested in capital assets, net of related debt increased by \$355,911 or four percent due to pay down of annual debt service. Unrestricted net assets increased by \$929,921 or eight percent.

Total revenues for governmental activities increased from the previous year by \$338,770. General revenue had a net increase of \$281,181 or three percent.

Business-type Activities. Net Assets from business-type activities increased by \$2,647,424 or 10 percent from \$26,317,100 to \$28,964,524 accounting for the other 67 percent of the total growth in net assets. This increase is primarily due to the excess of operating revenues over operating expenditures and net transfers.

The following table provides a summary of the City's operations for the year ended September 30, 2008, with comparative totals for the year ended September 30, 2007.

CITY OF STEPHENVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,567,484	\$ 1,291,597	\$ 6,391,799	\$ 5,826,087	\$ 7,959,283	\$ 7,117,684
Operating grants	57,969	115,859	-	-	57,969	115,859
Capital grants and contributions	148	115,556	870,718	169,370	870,866	284,926
General revenues:						
Property taxes	3,659,623	3,389,638	-	-	3,659,623	3,389,638
Sales taxes	4,745,309	4,351,269	-	-	4,745,309	4,351,269
Franchise taxes	1,169,858	1,370,838	-	-	1,169,858	1,370,838
Other taxes	434,498	388,013	-	-	434,498	388,013
Investment earnings	454,269	623,810	469,667	876,642	923,936	1,500,452
Miscellaneous	17,186	75,994	-	-	17,186	75,994
Total revenues	<u>12,106,344</u>	<u>11,722,574</u>	<u>7,732,184</u>	<u>6,872,099</u>	<u>19,838,528</u>	<u>18,594,673</u>
Expenses:						
General government	1,331,583	1,591,258	-	-	1,331,583	1,591,258
Public safety	5,504,975	5,187,628	-	-	5,504,975	5,187,628
Streets	1,183,435	1,144,681	-	-	1,183,435	1,144,681
Culture and recreation	2,166,545	1,733,627	-	-	2,166,545	1,733,627
Community development	395,182	381,091	-	-	395,182	381,091
Interest on long-term debt	103,490	65,926	-	-	103,490	65,926
Water and wastewater	-	-	4,526,893	4,776,359	4,526,893	4,776,359
Storm water drainage	-	-	245,371	141,516	245,371	141,516
Sanitary landfill	-	-	290,349	272,010	290,349	272,010
Airport	-	-	127,018	130,169	127,018	130,169
Total expenses	<u>10,685,210</u>	<u>10,104,211</u>	<u>5,189,631</u>	<u>5,320,054</u>	<u>15,874,841</u>	<u>15,424,265</u>
Increases in net assets						
before transfers	1,421,134	1,618,363	2,542,553	1,552,045	3,963,687	3,170,408
Transfers	(104,871)	(215,921)	104,871	215,921	-	-
Change in net assets	1,316,263	1,402,442	2,647,424	1,767,966	3,963,687	3,170,408
Net assets - beginning	<u>21,756,728</u>	<u>20,354,286</u>	<u>26,317,100</u>	<u>24,549,134</u>	<u>48,073,828</u>	<u>44,903,420</u>
Net assets - ending	<u>\$ 23,072,991</u>	<u>\$ 21,756,728</u>	<u>\$ 28,964,524</u>	<u>\$ 26,317,100</u>	<u>\$ 52,037,515</u>	<u>\$ 48,073,828</u>

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,433,889. Approximately 99 percent of this total amount, \$12,335,983 constitutes unreserved fund balance. Refer to page 13 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City budgeted for a decrease in the fund balance on a budget basis of \$2,925,944 but due to actual revenues being more than budgeted and actual expenditures being less than budgeted and some capital projects not being initiated during the year the fund balance decreased by only five percent during the current fiscal year. Sales tax collections increased by 9% from the previous year and the City collected 12 percent more than budgeted. Other actual revenues collected were also higher than budgeted: 1) current year and delinquent property taxes were collected at higher rates than projected to generate \$51,089; 2) franchise fees were \$49,858; 3) licenses and permit fees were \$144,037 more than budgeted; and 4) service charges were also higher by \$75,543 than budgeted. Expenditures were lower than budgeted mainly because capital outlays were \$1,021,917 lower.

The fund balance of the City's General Fund decreased by five percent during the current fiscal year.

The Capital Projects Fund has a fund balance of \$2,429,680, an increase of 127 percent all of which is restricted for specific construction projects.

The Debt Service Fund has a fund balance of \$89,253, an increase of nine percent, all of which is reserved for the repayment of debt.

The Special Revenue Funds have a fund balance of \$350,750 an increase of 25 percent, all of which is restricted for the special programs defined by revenue source.

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 City's Enterprise Funds at the end of the year amounted to \$7,178,489. The increase in net assets was \$2,647,424. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$614,650. The most significant changes were for \$93,495 to acquire park property and \$450,000 street reconstruction program. The remaining portion of the budget difference was used mainly to cover adjustments for unexpected maintenance and personnel costs.

Even with these increases in appropriations, the excess in revenues during the year was sufficient to fund these increases without reducing the budgeted General Fund fund balance.

Actual expenditures on a budgetary basis were \$11,463,430 compared to the final budget expenditures of \$13,021,130. The \$1,557,700 variance was primarily attributable to capital projects not initiated during the year, due to close monitoring of expenditures by departments and performing better than anticipated. Actual revenues on a budgetary basis were \$11,049,953 compared to the final budget of \$10,198,177. The \$851,776 variance was due primarily to increases in sales tax revenue and licenses/permit fees.

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$56,157,471 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

- Park property acquisition, \$93,495;
- Restroom at park, \$250,000;
- Road paving at cemetery, \$25,000;
- Recreation Center face lift, \$20,000;
- Street reconstruction, \$450,000;
- Ambulance replacement, \$105,000;
- Surface water supply project, \$2.4 million;
- Storm water drainage improvements, \$3.4 million.

CITY OF STEPHENVILLE’S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,539,141	\$ 2,163,314	\$ 798,082	\$ 798,082	\$ 3,337,223	\$ 2,961,396
Buildings and improvements	3,398,967	3,191,028	6,031,706	5,594,038	9,430,673	8,785,066
Equipment	5,305,505	5,091,173	1,955,030	1,872,222	7,260,535	6,963,395
Infrastructure	10,880,627	9,906,803	41,518,819	38,653,421	52,399,446	48,560,224
Construction in progress	-	-	13,226,871	8,414,542	13,226,871	8,414,542
Less: accumulated depreciation	(9,620,854)	(9,054,843)	(19,876,423)	(18,723,241)	(29,497,277)	(27,778,084)
Total capital assets	\$ <u>12,503,386</u>	\$ <u>11,297,475</u>	\$ <u>43,654,085</u>	\$ <u>36,609,064</u>	\$ <u>56,157,471</u>	\$ <u>47,906,539</u>

Additional information on the City's capital assets can be found on page 35 – 36 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$27,539,155. Of this amount, \$1,990,000 represents bonded debt backed by the full faith and credit of the City, \$17,065,000 represents utility revenue bonds secured by water and sewer revenues and \$199,155 represents revenue bonds secured by airport revenues, and \$8,285,000 secured by storm water drainage revenues.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
General obligation	\$ 1,325,000	\$ 330,000	\$ -	\$ -	\$ 1,325,000	\$ 330,000
Certificates of obligations	665,000	810,000	-	-	665,000	810,000
Revenue bonds payable	-	-	25,549,155	22,870,134	25,549,155	22,870,134
	\$ <u>1,990,000</u>	\$ <u>1,140,000</u>	\$ <u>25,549,155</u>	\$ <u>22,870,134</u>	\$ <u>27,539,155</u>	\$ <u>24,010,134</u>

The City's General Obligation, Tax and Certificates of Obligation Bond ratings are listed below.

	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>
General Obligation Bonds	A3	A

Additional information on the City's long term-debt can be found in pages 38 – 41 this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The FY 08/09 budget incorporates a \$.01 reduction in the property tax rate to \$.435 per \$100 valuation. Certified taxable property value for 2008 is \$890 million. This is an 8.8% increase over the last year's values, or \$72 million. The largest portion of the increase is due to the reevaluation of existing property. Continued growth provided an additional \$18.5 million in taxable property value. Factors that were considered in preparing the City's budget for the 2009 fiscal year were increases in personnel costs by about 2.5%, utilities and fuel costs.

The City uses reserves from the General Fund to supplement capital projects during the year as needs arise and where favorable unit pricing is received on such projects. Additionally, the City's Fiscal Management Practices call for the designation of any surplus of revenues over expenses at fiscal year-end as a means of providing resources for major capital projects. The FY 08/09 budget has \$2.0 million for an aquatics complex. There are ample funds for transfers during 2009, should the City Council so desire, and still retain the minimum fund balance provisions established by the Fiscal Management Practices.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Walter Wood, Director of Finance, 298 West Washington, Stephenville, Texas 76401-4257 or call (254) 918-1211.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 14,143,766	\$ 8,912,155	\$ 23,055,921
Receivables (net of allowances for uncollectibles)			
Taxes	1,021,319	-	1,021,319
Accounts	425,291	971,384	1,396,675
Internal balances	(2,320,080)	2,320,080	-
Inventories	8,653	-	8,653
Restricted investments	-	911,444	911,444
Deferred charges	-	264,401	264,401
Capital assets			
Land	2,539,141	798,082	3,337,223
Buildings and improvements	3,398,967	6,031,706	9,430,673
Machinery and equipment	5,305,505	1,955,030	7,260,535
Infrastructure/water and wastewater distribution	10,880,627	41,518,819	52,399,446
Construction in progress	-	13,226,871	13,226,871
Less: accumulated depreciation	<u>(9,620,854)</u>	<u>(19,876,423)</u>	<u>(29,497,277)</u>
Total capital assets	<u>12,503,386</u>	<u>43,654,085</u>	<u>56,157,471</u>
Total assets	<u>25,782,335</u>	<u>57,033,549</u>	<u>82,815,884</u>
LIABILITIES			
Accounts payable	270,356	1,492,421	1,762,777
Accrued liabilities	186,497	33,719	220,216
Accrued interest payable	48,997	305,802	354,799
Customer deposits	-	202,089	202,089
Noncurrent liabilities:			
Due within one year	467,699	1,559,445	2,027,144
Due in more than one year	<u>1,735,795</u>	<u>24,475,549</u>	<u>26,211,344</u>
Total liabilities	<u>2,709,344</u>	<u>28,069,025</u>	<u>30,778,369</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,513,386	21,231,388	31,744,774
Restricted for:			
Hotel/motel economic development	316,827	-	316,827
Child and public safety	33,923	-	33,923
Debt service	46,615	554,647	601,262
Unrestricted	<u>12,162,240</u>	<u>7,178,489</u>	<u>19,340,729</u>
Total net assets	<u>\$ 23,072,991</u>	<u>\$ 28,964,524</u>	<u>\$ 52,037,515</u>

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

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CITY OF STEPHENVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,331,583	\$ 219,353	\$ 12	\$ -	\$(1,112,218)	\$ -	\$(1,112,218)
Public safety	5,504,975	906,131	30,495	148	(4,568,201)	-	(4,568,201)
Streets	1,183,435	24,046	-	-	(1,159,389)	-	(1,159,389)
Culture and recreation	2,166,545	145,225	27,462	-	(1,993,858)	-	(1,993,858)
Community developmen	395,182	272,729	-	-	(122,453)	-	(122,453)
Interest on long-term debt	103,490	-	-	-	(103,490)	-	(103,490)
Total governmental activities	<u>10,685,210</u>	<u>1,567,484</u>	<u>57,969</u>	<u>148</u>	<u>(9,059,609)</u>	<u>-</u>	<u>(9,059,609)</u>
Business-type activities							
Water and wastewater	4,526,893	5,469,932	-	393,625	-	1,336,664	1,336,664
Sanitary landfill	290,349	275,915	-	-	-	(14,434)	(14,434)
Airport	127,018	68,186	-	477,093	-	418,261	418,261
Storm water drainage	245,371	577,766	-	-	-	332,395	332,395
Total business-type activities	<u>5,189,631</u>	<u>6,391,799</u>	<u>-</u>	<u>870,718</u>	<u>-</u>	<u>2,072,886</u>	<u>2,072,886</u>
Total	<u>\$ 15,874,841</u>	<u>\$ 7,959,283</u>	<u>\$ 57,969</u>	<u>\$ 870,866</u>	<u>(9,059,609)</u>	<u>2,072,886</u>	<u>(6,986,723)</u>
General revenues:							
Taxes:							
Property - general purpose					3,131,702	-	3,131,702
Property - debt service					527,921	-	527,921
Sales					4,745,309	-	4,745,309
Franchise					1,169,858	-	1,169,858
Other					434,498	-	434,498
Investment earning:					454,269	469,667	923,936
Miscellaneous					17,186	-	17,186
Transfers					(104,871)	104,871	-
Total general revenues and transfers					<u>10,375,872</u>	<u>574,538</u>	<u>10,950,410</u>
Change in net asset:					1,316,263	2,647,424	3,963,687
Net assets, beginning					<u>21,756,728</u>	<u>26,317,100</u>	<u>48,073,828</u>
Net assets, ending					<u>\$ 23,072,991</u>	<u>\$ 28,964,524</u>	<u>\$ 52,037,515</u>

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

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CITY OF STEPHENVILLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 8,935,694	\$ 4,799,962	\$ 408,110	\$ 14,143,766
Receivables (net of allowance for uncollectibles)				
Taxes	937,875	-	83,444	1,021,319
Accounts	424,074	-	1,217	425,291
Inventories	<u>8,653</u>	<u>-</u>	<u>-</u>	<u>8,653</u>
Total assets	<u>10,306,296</u>	<u>4,799,962</u>	<u>492,771</u>	<u>15,599,029</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	168,687	50,201	46,409	265,297
Accrued liabilities	186,497	-	-	186,497
Due to other funds	5,058	2,320,081	-	2,325,139
Deferred revenue	<u>381,848</u>	<u>-</u>	<u>6,359</u>	<u>388,207</u>
Total liabilities	<u>742,090</u>	<u>2,370,282</u>	<u>52,768</u>	<u>3,165,140</u>
Fund balances:				
Reserved for:				
Inventories	8,653	-	-	8,653
Debt service	-	-	89,253	89,253
Unreserved, reported in:				
General fund	9,555,553	-	-	9,555,553
Special revenue funds	-	-	350,750	350,750
Capital projects fund	<u>-</u>	<u>2,429,680</u>	<u>-</u>	<u>2,429,680</u>
Total fund balances	<u>9,564,206</u>	<u>2,429,680</u>	<u>440,003</u>	12,433,889
Total liabilities and fund balances	<u>\$ 10,306,296</u>	<u>\$ 4,799,962</u>	<u>\$ 492,771</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
				12,503,386
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				
				388,207
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				
				<u>(2,252,491)</u>
Net assets of governmental activities				<u>\$ 23,072,991</u>

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

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CITY OF STEPHENVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 3,127,330	\$ -	\$ 527,270	\$ 3,654,600
Sales	4,745,309	-	-	4,745,309
Franchise	1,169,858	-	-	1,169,858
Other	50,361	-	384,137	434,498
Licenses and permits	275,887	-	-	275,887
Fines and forfeitures	354,528	-	6,499	361,027
Intergovernmental	83,871	-	3,859	87,730
Service charges	831,448	-	8,236	839,684
Investment earnings	391,627	48,967	13,675	454,269
Miscellaneous	19,734	-	-	19,734
Total revenues	<u>11,049,953</u>	<u>48,967</u>	<u>943,676</u>	<u>12,042,596</u>
EXPENDITURES				
Current:				
General government	1,293,925	-	-	1,293,925
Public safety	5,440,753	-	18,515	5,459,268
Streets	824,764	-	-	824,764
Culture and recreation	1,607,852	-	323,994	1,931,846
Community development	394,833	-	-	394,833
Debt service:				
Principal	-	-	475,000	475,000
Interest and fiscal charges	-	-	49,195	49,195
Bond issuance costs	-	12,725	-	12,725
Capital outlay	<u>1,901,303</u>	<u>865</u>	<u>-</u>	<u>1,902,168</u>
Total expenditures	<u>11,463,430</u>	<u>13,590</u>	<u>866,704</u>	<u>12,343,724</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(413,477)</u>	<u>35,377</u>	<u>76,972</u>	<u>(301,128)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	207,629	-	-	207,629
Transfers out	(312,500)	-	-	(312,500)
Proceeds from sale of capital assets	27,914	-	-	27,914
Proceeds from general long-term debt	<u>-</u>	<u>1,325,000</u>	<u>-</u>	<u>1,325,000</u>
Total other financing sources (uses)	<u>(76,957)</u>	<u>1,325,000</u>	<u>-</u>	<u>1,248,043</u>
NET CHANGE IN FUND BALANCES	(490,434)	1,360,377	76,972	946,915
FUND BALANCES, BEGINNING	<u>10,054,640</u>	<u>1,069,303</u>	<u>363,031</u>	<u>11,486,974</u>
FUND BALANCES, ENDING	<u>\$ 9,564,206</u>	<u>\$ 2,429,680</u>	<u>\$ 440,003</u>	<u>\$ 12,433,889</u>

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

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CITY OF STEPHENVILLE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Amounts reported for governmental activities in the Statement of Activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 14)	\$ 946,915
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.	1,244,535
In the Statement of Activities, only the loss on disposals of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.	(38,624)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	63,748
The issuance of long-term debt 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. This amount is the net effect of the differences in the treatment of long-term debt and related items.	(850,000)
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.	(<u>50,311</u>)
Change in net assets of governmental activities (page 12)	\$ <u><u>1,316,263</u></u>

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

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,495,241	\$ 8,495,241	\$ 9,092,858	\$ 597,617
Licenses and permits	131,850	131,850	275,887	144,037
Fines and forfeitures	325,000	325,000	354,528	29,528
Intergovernmental	77,972	77,972	83,871	5,899
Service charges	755,914	755,914	831,448	75,534
Investment earnings	400,000	400,000	391,627	(8,373)
Miscellaneous	12,200	12,200	19,734	7,534
Total revenues	<u>10,198,177</u>	<u>10,198,177</u>	<u>11,049,953</u>	<u>851,776</u>
EXPENDITURES				
Current:				
General government:				
City council	46,729	46,729	46,142	587
City administrator	121,891	121,891	120,752	1,139
City secretary	136,498	136,498	126,689	9,809
Emergency management	6,450	6,850	6,774	76
Municipal buildings	219,508	219,508	197,436	22,072
Financial administration and accounting	330,160	330,160	327,076	3,084
Purchasing	56,398	56,398	45,084	11,314
Tax assessment and collection	117,000	117,000	109,895	7,105
Legal counsel	70,938	70,938	71,150	(212)
Municipal court	96,000	136,000	139,837	(3,837)
Human resources	119,752	119,752	103,090	16,662
Total general government	<u>1,321,324</u>	<u>1,361,724</u>	<u>1,293,925</u>	<u>67,799</u>
Public safety:				
Fire and ambulance administration	217,238	226,338	221,273	5,065
Fire prevention and investigation	153,645	153,645	154,068	(423)
Fire suppression	980,629	980,629	865,164	115,465
Emergency medical services	966,796	998,446	984,521	13,925
Volunteer	34,183	34,183	31,308	2,875
Police administration	125,090	125,090	128,983	(3,893)
Police patrol	1,662,540	1,662,540	1,621,703	40,837

(continued)

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Current:				
Public safety (continued):				
Police communications	\$ 372,430	\$ 372,430	\$ 342,390	\$ 30,040
Police records	153,943	153,943	138,922	15,021
Criminal investigation	572,544	606,044	595,962	10,082
Police reserve	74,168	74,168	69,566	4,602
Animal control	118,171	118,171	109,076	9,095
Public safety facility	186,183	186,183	177,817	8,366
Total public safety	<u>5,617,560</u>	<u>5,691,810</u>	<u>5,440,753</u>	<u>251,057</u>
Streets:				
Street maintenance	<u>867,450</u>	<u>877,450</u>	<u>824,764</u>	<u>52,686</u>
Total streets	<u>867,450</u>	<u>877,450</u>	<u>824,764</u>	<u>52,686</u>
Culture and recreation:				
Recreation administration	765,633	765,633	766,746	(1,113)
Park maintenance	416,162	426,162	394,226	31,936
Cemeteries	124,410	124,410	121,468	2,942
Library	235,660	235,660	225,403	10,257
Senior citizens center	122,208	122,208	100,009	22,199
Total culture and recreation	<u>1,664,073</u>	<u>1,674,073</u>	<u>1,607,852</u>	<u>66,221</u>
Community development:				
Community development planning	172,096	172,096	165,157	6,939
Community development inspection	218,491	218,491	180,435	38,056
Code enforcement	<u>102,266</u>	<u>102,266</u>	<u>49,241</u>	<u>53,025</u>
Total community development	<u>492,853</u>	<u>492,853</u>	<u>394,833</u>	<u>98,020</u>
Total current	<u>9,963,260</u>	<u>10,097,910</u>	<u>9,562,127</u>	<u>535,783</u>
Capital outlay:				
General government:				
Municipal buildings	<u>19,600</u>	<u>139,600</u>	<u>118,596</u>	<u>21,004</u>
Total general government	<u>19,600</u>	<u>139,600</u>	<u>118,596</u>	<u>21,004</u>

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CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget
				Positive
				(Negative)
EXPENDITURES (Continued)				
Current: (Continued)				
Public safety:				
Fire suppression	\$ 27,500	\$ 27,500	\$ 25,112	\$ 2,388
Police patrol	80,000	80,000	89,208	(9,208)
Public safety facility	<u>48,870</u>	<u>48,870</u>	<u>48,732</u>	<u>138</u>
Total public safety	<u>156,370</u>	<u>156,370</u>	<u>163,052</u>	<u>(6,682)</u>
Streets:				
Street maintenance	<u>833,750</u>	<u>1,283,750</u>	<u>1,275,817</u>	<u>7,933</u>
Total highways and streets	<u>833,750</u>	<u>1,283,750</u>	<u>1,275,817</u>	<u>7,933</u>
Culture and recreation:				
Park maintenance	1,378,500	1,278,500	289,084	989,416
Cemeteries	<u>55,000</u>	<u>65,000</u>	<u>54,754</u>	<u>10,246</u>
Total culture and recreation	<u>1,433,500</u>	<u>1,343,500</u>	<u>343,838</u>	<u>999,662</u>
Total capital outlay	<u>2,443,220</u>	<u>2,923,220</u>	<u>1,901,303</u>	<u>1,021,917</u>
Total expenditures	<u>12,406,480</u>	<u>13,021,130</u>	<u>11,463,430</u>	<u>1,557,700</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,208,303)</u>	<u>(2,822,953)</u>	<u>(413,477)</u>	<u>2,409,476</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	206,000	206,000	207,629	1,629
Transfers out	(245,991)	(315,991)	(312,500)	3,491
Proceeds from sale of capital assets	<u>7,000</u>	<u>7,000</u>	<u>27,914</u>	<u>20,914</u>
Total other financing sources (uses)	<u>(32,991)</u>	<u>(102,991)</u>	<u>(76,957)</u>	<u>26,034</u>
NET CHANGE IN FUND BALANCE	<u>(2,241,294)</u>	<u>(2,925,944)</u>	<u>(490,434)</u>	<u>2,435,510</u>
FUND BALANCE, BEGINNING	<u>10,054,640</u>	<u>10,054,640</u>	<u>10,054,640</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 7,813,346</u>	<u>\$ 7,128,696</u>	<u>\$ 9,564,206</u>	<u>\$ 2,435,510</u>

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

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2008

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 2,946,451	\$ 5,438,436	\$ 527,268	\$ 8,912,155
Accounts receivable - net of allowances for uncollectibles	896,396	64,130	10,858	971,384
Due from other funds	2,382,002	-	-	2,382,002
Restricted investments	752,870	158,574	-	911,444
Total current assets	<u>6,977,719</u>	<u>5,661,140</u>	<u>538,126</u>	<u>13,176,985</u>
Noncurrent assets:				
Deferred charges	176,642	87,759	-	264,401
Capital assets:				
Land	163,721	-	634,361	798,082
Buildings and improvements	2,330,179	-	3,701,527	6,031,706
Equipment	1,242,536	-	712,494	1,955,030
Water and wastewater distribution	41,518,819	-	-	41,518,819
Construction in progress	6,395,137	6,451,545	380,189	13,226,871
Less: accumulated depreciation	(18,734,026)	-	(1,142,397)	(19,876,423)
Total capital assets	<u>32,916,366</u>	<u>6,451,545</u>	<u>4,286,174</u>	<u>43,654,085</u>
Total noncurrent assets	<u>33,093,008</u>	<u>6,539,304</u>	<u>4,286,174</u>	<u>43,918,486</u>
Total assets	<u>40,070,727</u>	<u>12,200,444</u>	<u>4,824,300</u>	<u>57,095,471</u>
LIABILITIES				
Current liabilities:				
Accounts payable	791,720	695,716	4,985	1,492,421
Accrued liabilities	31,233	-	2,486	33,719
Due to other funds	-	-	61,922	61,922
Customer deposits	202,089	-	-	202,089
Accrued interest	198,223	96,152	11,427	305,802
Capital lease	-	-	46,181	46,181
Bonds payable	1,340,000	150,000	17,000	1,507,000
Compensated absences payable	5,876	-	388	6,264
Total current liabilities	<u>2,569,141</u>	<u>941,868</u>	<u>144,389</u>	<u>3,655,398</u>
Long-term liabilities:				
Capital lease	-	-	131,156	131,156
Bonds payable	15,725,000	8,135,000	182,155	24,042,155
Compensated absences payable	23,500	-	1,554	25,054
Liability for landfill closure	-	-	277,184	277,184
Total long-term liabilities	<u>15,748,500</u>	<u>8,135,000</u>	<u>592,049</u>	<u>24,475,549</u>
Total liabilities	<u>18,317,641</u>	<u>9,076,868</u>	<u>736,438</u>	<u>28,130,947</u>
NET ASSETS				
Invested in capital assets, net of related debt	15,851,366	1,470,340	3,909,682	21,231,388
Restricted for debt service	554,647	-	-	554,647
Unrestricted	<u>5,347,073</u>	<u>1,653,236</u>	<u>178,180</u>	<u>7,178,489</u>
Total net assets	<u>\$ 21,753,086</u>	<u>\$ 3,123,576</u>	<u>\$ 4,087,862</u>	<u>\$ 28,964,524</u>

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

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CITY OF STEPHENVILLE, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
OPERATING REVENUES				
Water sales	\$ 3,199,634	\$ -	\$ -	\$ 3,199,634
Wastewater charges	1,959,175	-	-	1,959,175
Tap and collection fees	171,009	-	-	171,009
Delinquent charges	32,074	-	-	32,074
Gate charges	-	-	275,915	275,915
Hanger rental	-	-	64,264	64,264
Storm water drainage fees	-	577,766	-	577,766
Other service charges	108,040	-	3,922	111,962
Total operating revenues	5,469,932	577,766	344,101	6,391,799
OPERATING EXPENSES				
Personnel services	886,604	-	77,976	964,580
Contractual services	805,835	-	-	805,835
Utilities	606,293	-	18,401	624,694
Repairs and maintenance	303,855	1,001	33,957	338,813
Other supplies and expenses	248,975	200	79,697	328,872
Depreciation	1,025,093	-	175,989	1,201,082
Total operating expenses	3,876,655	1,201	386,020	4,263,876
OPERATING INCOME	1,593,277	576,565	(41,919)	2,127,923
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	304,029	150,511	15,127	469,667
Interest and fiscal charges on debt	(650,238)	(244,170)	(31,347)	(925,755)
Total nonoperating revenues (expenses)	(346,209)	(93,659)	(16,220)	(456,088)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,247,068	482,906	(58,139)	1,671,835
CAPITAL CONTRIBUTIONS	393,625	-	477,093	870,718
TRANSFERS IN	-	-	312,500	312,500
TRANSFERS OUT	(207,629)	-	-	(207,629)
CHANGE IN NET ASSETS	1,433,064	482,906	731,454	2,647,424
TOTAL NET ASSETS, BEGINNING	20,320,022	2,640,670	3,356,408	26,317,100
TOTAL NET ASSETS, ENDING	\$ 21,753,086	\$ 3,123,576	\$ 4,087,862	\$ 28,964,524

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

CITY OF STEPHENVILLE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 5,456,599	\$ 572,550	\$ 347,575	\$ 6,376,724
Cash payments to employees for services	(902,927)	-	(80,949)	(983,876)
Cash payments to suppliers for goods and services	(1,828,230)	290,709	(137,798)	(1,675,319)
Cash provided by operating activities	<u>2,725,442</u>	<u>863,259</u>	<u>128,828</u>	<u>3,717,529</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receivables repaid by other funds	2,174,358	-	17,717	2,192,075
Interfund payables repaid to other funds	-	-	(17,717)	(17,717)
Cash borrowed from other funds	-	-	61,922	61,922
Transfers from other funds	-	-	312,500	312,500
Transfers to other funds	(207,629)	-	-	(207,629)
Cash provided by noncapital financing activities	<u>1,966,729</u>	<u>-</u>	<u>374,422</u>	<u>2,341,151</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	-	4,130,000	-	4,130,000
Proceeds from sale of capital assets	-	-	631	631
Principal repayments on capital lease	-	-	(42,583)	(42,583)
Principal repayments on bonds	(1,290,000)	(145,000)	(15,979)	(1,450,979)
Interest and fiscal charges on debt	(682,954)	(205,992)	(31,289)	(920,235)
Acquisition and construction of capital assets	(2,962,688)	(4,032,282)	(344,516)	(7,339,486)
Cash used by capital and related financing activities	<u>(4,935,642)</u>	<u>(253,274)</u>	<u>(433,736)</u>	<u>(5,622,652)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>304,029</u>	<u>150,511</u>	<u>15,127</u>	<u>469,667</u>
Cash provided by investing activities	<u>304,029</u>	<u>150,511</u>	<u>15,127</u>	<u>469,667</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,558	760,496	84,641	905,695
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,615,263</u>	<u>4,836,514</u>	<u>441,073</u>	<u>8,892,850</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 3,675,821</u>	<u>\$ 5,597,010</u>	<u>\$ 525,714</u>	<u>\$ 9,798,545</u>
(Including \$752,870 for the Water and Wastewater fund and \$158,574 for the Storm Water Drainage fund in restricted investments)				

(continued)

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
RECONCILIATION OF OPERATING INCOME TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 1,593,277	\$ 576,565	\$(41,919)	\$ 2,127,923
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,025,093	-	175,989	1,201,082
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	2,053	(5,216)	3,474	311
Increase (decrease) in accounts payable	136,728	291,910	(5,743)	422,895
Increase (decrease) in accrued liabilities	3,512	-	(1,531)	1,981
Increase (decrease) in customer deposits	(15,386)	-	-	(15,386)
Increase (decrease) in compensated absences	(19,835)	-	(1,442)	(21,277)
Total adjustments	1,132,165	286,694	170,747	1,589,606
Net cash provided by operating activities	\$ 2,725,442	\$ 863,259	\$ 128,828	\$ 3,717,529
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Contributions of capital assets	\$ 393,625	\$ -	\$ 477,093	\$ 870,718

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

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
SEPTEMBER 30, 2008

	<u>Agency Fund</u>
ASSETS	
Due from other funds	\$ <u>5,059</u>
Total assets	\$ <u><u>5,059</u></u>
LIABILITIES	
Due to others	\$ <u>5,059</u>
Total liabilities	\$ <u><u>5,059</u></u>

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

CITY OF STEPHENVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stephenville, Texas, was incorporated August 6, 1989, and operates as a home rule City. The City operates under a mayor-council form of government and provides the following services as authorized by its charter, general government, public safety (police, fire and EMS), streets, community development (planning and zoning, licensing, permitting and inspection), water and wastewater system, culture and recreation, airport and sanitary landfill.

A. Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, 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 revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 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 revenue are reported instead as *general revenue*.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds are those through which most governmental 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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

The **General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of general major capital facilities. Financing is provided primarily by the sale of general obligation bonds and developer contributions.

The City reports the following major proprietary funds:

The **Water and Wastewater Fund** – is used to account for the activities necessary for the provisions of water and wastewater services.

The **Storm Water Drainage Fund** – is used to account for the activities necessary for the provisions of storm water drainage services.

Additionally, the City reports the following fund type:

Fiduciary Funds – **Agency Funds** are used to account for assets held by the City in a trustee capacity or as an agent on behalf of others. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. The City has one agency fund: the Senior Citizens Fund.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. 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 revenue. Likewise, general revenue includes all taxes.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue 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

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost. All other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

All inventories are valued at cost (first-in, first-out method). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Certain bond proceeds, 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 covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Airport improvements	40
Buildings	20 to 40
Waterworks and sanitation systems	33 1/3
Infrastructure	20
Machinery and equipment	7 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees previously covered by civil service policies also have carried forward unused sick leave benefits. No liability is reported for unpaid accumulated sick leave for the remaining employees. Vacation pay is accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured (for example, as a result of employee resignations and retirements).

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as 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 are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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.

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 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, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(2,252,491) difference are as follows:

General obligations	\$(1,990,000)
Accrued interest payable	(48,997)
Compensated absences	<u>(213,494)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$(<u>2,252,491</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 \$1,244,535 difference are as follows:

Capital outlay	\$ 2,117,419
Depreciation expense	<u>(872,884)</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>1,244,535</u>

(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)

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$63,748 difference are as follows:

Property taxes	\$ 5,023
Ambulance charges for services	<u>58,725</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>63,748</u>

Another element of that reconciliation states that, “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.” The details of this \$(50,311) difference are as follows:

Accrued interest	\$(41,570)
Compensated absences	<u>(8,741)</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>(50,311)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. All annual appropriations lapse at the end of each fiscal year. Budgets are adopted for the proprietary funds annually only as a management tool. There are no legally mandated budgetary constraints for the proprietary funds.

In May of each year, budget preparation packages are distributed to all City agencies. The agencies of the City submit requests for appropriation to the City Administrator before June 15 so that a budget may be prepared. The budget is prepared by department and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During August, the proposed budget is presented to the City Council for review. The City Council holds one public hearing before August 31 and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available by the City Administrator, or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplementary budget appropriations during the year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

(continued)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Expenditures over Appropriations

Expenditures exceeded appropriations in the General Fund in various departments. The following overruns were funded by unexpected revenues.

General government:		
Legal counsel	\$	212
Municipal court		3,837
Public safety:		
Fire prevention and investigation		423
Police administration		3,893
Culture and recreation:		
Recreation and administration		1,113
Capital outlay:		
Public safety:		
Police patrol		9,208

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Substantially all deposits and investments are maintained in consolidated cash and investment accounts. Interest income relating to consolidated deposits and investments is allocated to the individual funds monthly based on each fund’s prorate share of total consolidated cash, deposits and investments.

Legal provisions generally permit the City to invest in certificates of deposit, repurchase agreements, public funds investment pools, direct obligations of the United States of America or its subdivisions and state and local government securities. During the year ended September 30, 2008, the City did not own any types of securities other than those permitted by statute.

As of September 30, 2008, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 15,551,023	45
TexStar	4,210,512	49
U. S. Government Securities	3,003,405	116
Total fair value	\$ 22,764,940	
Portfolio weighted average maturity (days)		55

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an 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.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolios to a maximum of 180 days.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. 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, 2008, the City's entire deposit balance was collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Enterprise Funds			Total
	General	Nonmajor Funds	Water and Wastewater	Storm Water Drainage	Nonmajor Funds	
Receivables:						
Accounts:						
Customers	\$ -	\$ -	\$ 1,258,400	\$ 72,107	\$ 5,115	\$ 1,335,622
Ambulance	637,371	-	-	-	-	637,371
Municipal court fines	236,776	-	-	-	-	236,776
Other	39,236	1,217	7,170	-	5,743	53,366
Taxes:						
Property	108,892	20,078	-	-	-	128,970
Sales	890,808	-	-	-	-	890,808
Occupancy	-	75,513	-	-	-	75,513
Gross receivables	1,913,083	96,808	1,265,570	72,107	10,858	3,358,426
Less: allowance for uncollectibles	(551,134)	(12,147)	(369,174)	(7,977)	-	(940,432)
Net total receivables	\$ 1,361,949	\$ 84,661	\$ 896,396	\$ 64,130	\$ 10,858	\$ 2,417,994

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. 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 fund)	\$ 39,220	\$ -
Delinquent property taxes receivable (debt service)	6,359	-
Ambulance charges for services (general fund)	105,852	-
Municipal court fines	<u>236,776</u>	<u>-</u>
Total governmental funds	<u>\$ 388,207</u>	<u>\$ -</u>

C. Property Tax Calendar

Property taxes assessed on property valuations as of January 1 each year are levied on the subsequent October 1. Property taxes attach as an enforceable lien on property at the time levied. Property taxes are considered due when levied and become delinquent on the following February 1. On this date, penalties and interest may be assessed by the City.

D. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,163,314	\$ 375,827	\$ -	\$ 2,539,141
Total assets not being depreciated	<u>2,163,314</u>	<u>375,827</u>	<u>-</u>	<u>2,539,141</u>
Capital assets, being depreciated:				
Buildings and improvements	3,191,028	207,939	-	3,398,967
Machinery and equipment	5,091,173	559,829	345,497	5,305,505
Infrastructure	<u>9,906,803</u>	<u>973,824</u>	<u>-</u>	<u>10,880,627</u>
Total capital assets being depreciated	<u>18,189,004</u>	<u>1,741,592</u>	<u>345,497</u>	<u>19,585,099</u>
Accumulated depreciation:				
Buildings and improvements	881,319	69,687	-	951,006
Machinery and equipment	3,521,628	335,740	306,873	3,550,495
Infrastructure	<u>4,651,896</u>	<u>467,457</u>	<u>-</u>	<u>5,119,353</u>
Total accumulated depreciation	<u>9,054,843</u>	<u>872,884</u>	<u>306,873</u>	<u>9,620,854</u>
Total capital assets being depreciated, net	<u>9,134,161</u>	<u>868,708</u>	<u>38,624</u>	<u>9,964,245</u>
Governmental activities capital assets, net	<u>\$ 11,297,475</u>	<u>\$ 1,244,535</u>	<u>\$ 38,624</u>	<u>\$ 12,503,386</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 798,082	\$ -	\$ -	\$ 798,082
Construction in progress	<u>8,414,542</u>	<u>7,284,100</u>	<u>2,471,771</u>	<u>13,226,871</u>
Total assets not being depreciated	<u>9,212,624</u>	<u>7,284,100</u>	<u>2,471,771</u>	<u>14,024,953</u>
Capital assets, being depreciated:				
Buildings and improvements	5,594,038	449,668	12,000	6,031,706
Machinery and equipment	1,872,222	82,808	-	1,955,030
Water and wastewater system	<u>38,653,421</u>	<u>2,865,398</u>	<u>-</u>	<u>41,518,819</u>
Total capital assets being depreciated	<u>46,119,681</u>	<u>3,397,874</u>	<u>12,000</u>	<u>49,505,555</u>
Accumulated depreciation:				
Buildings and improvements	1,075,078	131,042	11,370	1,194,750
Machinery and equipment	1,237,625	106,118	-	1,343,743
Water and wastewater system	<u>16,374,008</u>	<u>963,922</u>	<u>-</u>	<u>17,337,930</u>
Total accumulated depreciation	<u>18,686,711</u>	<u>1,201,082</u>	<u>11,370</u>	<u>19,876,423</u>
Total capital assets being depreciated, net	<u>27,432,970</u>	<u>2,196,792</u>	<u>630</u>	<u>29,629,132</u>
Business-type activities capital assets, net	<u>\$ 36,645,594</u>	<u>\$ 9,480,892</u>	<u>\$ 2,472,401</u>	<u>\$ 43,654,085</u>

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

Governmental activities:	
General government	\$ 95,254
Public safety	186,693
Culture and recreation	232,994
Streets	<u>357,943</u>
Total depreciation expense - governmental activities	<u>\$ 872,884</u>
Business-type activities:	
Water and wastewater	\$ 1,025,093
Landfill	110,402
Airport	<u>65,587</u>
Total depreciation expense - business-type activities	<u>\$ 1,201,082</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2008, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency	General	\$ 5,058
Water and Wastewater	Capital projects	2,320,081
Water and Wastewater	Nonmajor enterprise	<u>61,922</u>
Total		<u>\$ 2,387,061</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2008, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor enterprise	General	\$ 312,500
General	Water and wastewater	<u>207,629</u>
Total interfund transfers		<u>\$ 520,129</u>

Transfers in the amount of \$312,500 were used to move unrestricted revenues collected in the General Fund to finance the match for a grant received in the Airport Fund. A transfer in the amount of \$207,629 was paid from the Water and Wastewater Fund to the General Fund for payments in lieu of taxes.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity from the year ended September 30, 2008, was as follows:

	Balance 09/30/07	Additions	Reductions	Balance 09/30/08	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 1,140,000	\$ 1,325,000	\$ 475,000	\$ 1,990,000	\$ 425,000
Compensated absences payable	<u>204,753</u>	<u>16,165</u>	<u>7,424</u>	<u>213,494</u>	<u>42,699</u>
Total governmental activities	<u>\$ 1,344,753</u>	<u>\$ 1,341,165</u>	<u>\$ 482,424</u>	<u>\$ 2,203,494</u>	<u>\$ 467,699</u>
<u>Business-type activities:</u>					
Revenue bonds/certificates of obligation	\$ 22,870,134	\$ 4,130,000	\$ 1,450,979	\$ 25,549,155	\$ 1,507,000
Capital lease	219,919	-	42,582	177,337	46,181
Estimated landfill closure and postclosure costs	240,654	36,530	-	277,184	-
Compensated absences payable	<u>27,541</u>	<u>4,239</u>	<u>462</u>	<u>31,318</u>	<u>6,264</u>
Total business-type activities	<u>\$ 23,358,248</u>	<u>\$ 4,170,769</u>	<u>\$ 1,494,023</u>	<u>\$ 26,034,994</u>	<u>\$ 1,559,445</u>

The General Fund is generally used to liquidate compensated absences for governmental activities.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities of governmental activities and to refund previous issues. General obligation bonded debt of the City is as follows:

Governmental activities:

\$2,000,000 Combination Tax and Revenue Certificates of Obligation - Series 1996, principal due annually in series through 2016, interest due semi-annually at 4.8% to 6.8%, certificates callable February 15, 2006.	\$ 665,000
\$1,325,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	<u>1,325,000</u>
	<u>\$ 1,990,000</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Revenue Bonds

The City also issues revenue bonds to finance business-type activities, where it pledges net income from service revenue to repay debt. Revenue bonds outstanding as of September 30, 2008, are as follows:

Business-type activities:

\$5,500,000 Utility System Revenue Bonds - Series 2001, principal due annually in series through 2016, interest due semi-annually at 4.59%.	\$ 4,905,000
\$1,150,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2012, interest due semi-annually at 4.45%.	520,000
\$1,600,000 Combination Tax Revenue Certificates of Obligation, Series 2003B, principal due annually in series through 2018, interest due semi-annually at 3.5%.	1,170,000
\$4,975,000 Combination Tax Revenue Refunding Bonds - Series 2003, principal due annually in series through 2013, interest due semi-annually at 2.75%.	2,020,000
\$275,000 Combination Tax and Revenue Certificates of Obligation, Series 2003A, principal due annually in Series through 2021, interest due semi-annually at 4.125%.	199,155
\$7,160,000 Combination Tax Revenue Bonds - Series 2004, principal due annually in series through 2019, interest due semi-annually at 4.45%.	6,770,000
\$2,000,000 Certificate of Obligation Bonds - Series 2006, principal due annually in series through 2018, interest due semi-annually at 3.77%.	1,680,000
\$4,300,000 Combination Tax Revenue Certificates of Obligation, Series 2006A, principal due annually in series through 2027, interest due semi-annually at 3.92%.	4,155,000
\$4,130,000 Combination Tax Revenue Certificates of Obligation, Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	<u>4,130,000</u>
Total Revenue Bonds	<u>\$ 25,549,155</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	\$ 425,000	\$ 98,690	\$ 523,690
2010	460,000	60,824	520,824
2011	230,000	44,320	274,320
2012	195,000	34,149	229,149
2013	320,000	35,505	355,505
2014 - 2015	<u>360,000</u>	<u>14,819</u>	<u>374,819</u>
Total	<u>\$ 1,990,000</u>	<u>\$ 288,307</u>	<u>\$ 2,278,307</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2009	\$ 1,507,000	\$ 1,027,769	\$ 2,534,769
2010	1,612,000	922,210	2,534,210
2011	1,668,000	862,123	2,530,123
2012	1,734,000	799,656	2,533,656
2013	1,805,000	734,638	2,539,638
2014 - 2018	9,618,155	2,587,663	12,205,818
2019 - 2023	3,270,000	1,092,239	4,362,239
2024 - 2028	1,950,000	684,866	2,634,866
2029 - 2032	<u>2,385,000</u>	<u>249,589</u>	<u>2,634,589</u>
Total	<u>\$ 25,549,155</u>	<u>\$ 8,960,753</u>	<u>\$ 34,509,908</u>

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of equipment for landfill maintenance. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Landfill
Asset:	
Machinery and equipment	\$ 219,919
Less: accumulated depreciation	<u>(42,582)</u>
Total	<u>\$ 177,337</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, were as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>
2009	\$ 61,165
2010	61,165
2011	<u>87,924</u>
Total minimum lease payments	210,254
Less: amount representing interest	<u>(32,917)</u>
Present value of minimum lease payments	<u>\$ 177,337</u>

G. Contingent Arbitrage Liabilities

The City has invested a portion of revenue bond proceeds as a reserve for the retirement of the bonds. Any excess of interest revenue earned on invested proceeds over interest paid on the bonds must be rebated to the federal government every five years.

V. 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; employee health benefits; and other claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. The City has not had any significant reductions in insurance coverage, nor have insurance settlements for the last three fiscal years exceeded insurance coverage. Any losses reported, but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

B. Commitments and Contingencies

The City is defendant in lawsuits occurring in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of the City's attorney, their resolution will not have a material adverse effect on the financial condition of the City.

(continued)

V. OTHER INFORMATION (Continued)

B. Commitments and Contingencies (Continued)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Municipal Solid Waste Landfill Closure and Post Closure Costs

The City has constructed a Type IV sanitary landfill, which began operations on December 1, 1995. This facility is permitted to accept only brush and/or construction demolition wastes and rubbish free of household wastes.

State and federal laws and regulations require the City to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of five years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will report a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used to date. Estimated closure and 5-year post closure costs are approximately \$277,184. The landfill site has an estimated net capacity of 213,899 cubic yards and is expected to be closed within the next 10 years; approximately 79% of the landfill was used at year-end. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has received written authorization from the state that no annual contributions are required, thus the intent of the City is to fund the required expenses as incurred.

D. Retirement Plan

Plan Description

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Plan Description (Continued)

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

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 6%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfounded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006, valuation is effective for rates beginning January 2008).

(continued)

V. **OTHER INFORMATION** (Continued)

D. **Retirement Plan** (Continued)

Contributions (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	25 Years - Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.1% (3.0% CPI)
Payroll growth assumption	3.0%

Actuarial Valuation Date	12/31/07	12/31/06	12/31/05
Actuarial Value of Assets	\$ 13,396,160	\$ 12,884,565	\$ 11,702,174
Actuarial Accrued Liabilities	19,744,843	16,154,691	14,690,509
Percentage Funded	67.8%	79.8%	79.7%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	6,348,683	3,270,126	2,988,335
Annual Covered Payroll	5,147,282	5,005,388	4,510,148
UAAL as a Percentage of Covered Payroll	123.3%	65.3%	66.3%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	696,664	590,098	512,482
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	<u>696,664</u>	<u>590,098</u>	<u>512,482</u>
Contributions Made (100%)	696,664	590,098	512,482
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the End of Period	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City’s unfunded actuarial accrued liability would have been \$17,059,352 and the funded ratio would have been 78.5%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

Hotel/Motel Occupancy Tax – This fund is used to account for hotel/motel occupancy tax revenue to be used for enhancing and promoting tourism and convention activity for the benefit of the hotel industry.

Child Safety – This fund is used to account for court costs used to operate a City school crossing guard program, or programs designated to enhance child safety, health, or nutrition; including child abuse prevention and intervention and drug and alcohol abuse prevention.

Public Safety – This fund is used to account for court costs used to promote various public safety programs.

The *Debt Service Fund* is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2008

	Special Revenue					
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 287,723	\$ 11,778	\$ 22,145	\$ 321,646	\$ 86,464	\$ 408,110
Receivables (net of allowance for uncollectibles)						
Property taxes	-	-	-	-	7,931	7,931
Accounts	-	-	-	-	1,217	1,217
Occupancy taxes	<u>75,513</u>	<u>-</u>	<u>-</u>	<u>75,513</u>	<u>-</u>	<u>75,513</u>
Total assets	<u>\$ 363,236</u>	<u>\$ 11,778</u>	<u>\$ 22,145</u>	<u>\$ 397,159</u>	<u>\$ 95,612</u>	<u>\$ 492,771</u>
LIABILITIES						
Accounts payable	\$ 46,409	\$ -	\$ -	\$ 46,409	\$ -	\$ 46,409
Deferred revenue	-	-	-	-	6,359	6,359
Total liabilities	<u>46,409</u>	<u>-</u>	<u>-</u>	<u>46,409</u>	<u>6,359</u>	<u>52,768</u>
FUND BALANCES						
Reserved for debt service	-	-	-	-	89,253	89,253
Unreserved	<u>316,827</u>	<u>11,778</u>	<u>22,145</u>	<u>350,750</u>	<u>-</u>	<u>350,750</u>
Total fund balances	<u>316,827</u>	<u>11,778</u>	<u>22,145</u>	<u>350,750</u>	<u>89,253</u>	<u>440,003</u>
Total liabilities and fund balances	<u>\$ 363,236</u>	<u>\$ 11,778</u>	<u>\$ 22,145</u>	<u>\$ 397,159</u>	<u>\$ 95,612</u>	<u>\$ 492,771</u>

CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue				Debt Service	Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total		
REVENUES						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ 527,270	\$ 527,270
Other	384,137	-	-	384,137	-	384,137
Fines and forfeitures	-	6,132	367	6,499	-	6,499
Intergovernmental	-	-	3,859	3,859	-	3,859
Service charges	-	-	8,236	8,236	-	8,236
Investment earnings	9,730	-	-	9,730	3,945	13,675
Total revenues	<u>393,867</u>	<u>6,132</u>	<u>12,462</u>	<u>412,461</u>	<u>531,215</u>	<u>943,676</u>
EXPENDITURES						
Current:						
Public safety	-	3,919	14,596	18,515	-	18,515
Culture and recreation	323,994	-	-	323,994	-	323,994
Debt service:						
Principal	-	-	-	-	475,000	475,000
Interest and fiscal charges	-	-	-	-	49,195	49,195
Total expenditures	<u>323,994</u>	<u>3,919</u>	<u>14,596</u>	<u>342,509</u>	<u>524,195</u>	<u>866,704</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>69,873</u>	<u>2,213</u>	<u>(2,134)</u>	<u>69,952</u>	<u>7,020</u>	<u>76,972</u>
FUND BALANCES, BEGINNING	<u>246,954</u>	<u>9,565</u>	<u>24,279</u>	<u>280,798</u>	<u>82,233</u>	<u>363,031</u>
FUND BALANCES, ENDING	<u>\$ 316,827</u>	<u>\$ 11,778</u>	<u>\$ 22,145</u>	<u>\$ 350,750</u>	<u>\$ 89,253</u>	<u>\$ 440,003</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

HOTEL/MOTEL OCCUPANCY TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - other	\$ 299,950	\$ 384,137	\$ 84,187
Investment income	<u>10,000</u>	<u>9,730</u>	<u>(270)</u>
Total revenues	<u>309,950</u>	<u>393,867</u>	<u>83,917</u>
EXPENDITURES			
Current:			
Culture and recreation	<u>350,723</u>	<u>323,994</u>	<u>26,729</u>
Total culture and recreation	<u>350,723</u>	<u>323,994</u>	<u>26,729</u>
Total expenditures	<u>350,723</u>	<u>323,994</u>	<u>26,729</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(40,773)	69,873	110,646
FUND BALANCE, BEGINNING	<u>246,954</u>	<u>246,954</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 206,181</u>	<u>\$ 316,827</u>	<u>\$ 110,646</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

CHILD SAFETY FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ 4,000	\$ 6,132	\$ 2,132
Total revenues	<u>4,000</u>	<u>6,132</u>	<u>2,132</u>
EXPENDITURES			
Current:			
Public safety	<u>3,919</u>	<u>3,919</u>	<u>-</u>
Total public safety	<u>3,919</u>	<u>3,919</u>	<u>-</u>
Total expenditures	<u>3,919</u>	<u>3,919</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	81	2,213	2,132
FUND BALANCE, BEGINNING	<u>9,565</u>	<u>9,565</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 9,646</u>	<u>\$ 11,778</u>	<u>\$ 2,132</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

PUBLIC SAFETY FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ -	\$ 367	\$ 367
Intergovernmental	3,700	3,859	159
Service charges	<u>-</u>	<u>8,236</u>	<u>8,236</u>
Total revenues	<u>3,700</u>	<u>12,462</u>	<u>8,762</u>
EXPENDITURES			
Current:			
Public safety	<u>18,700</u>	<u>14,596</u>	<u>4,104</u>
Total public safety	<u>18,700</u>	<u>14,596</u>	<u>4,104</u>
Total expenditures	<u>18,700</u>	<u>14,596</u>	<u>4,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(15,000)	(2,134)	12,866
FUND BALANCE, BEGINNING	<u>24,279</u>	<u>24,279</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 9,279</u>	<u>\$ 22,145</u>	<u>\$ 12,866</u>

CITY OF STEPHENVILLE, TEXAS

DEBT SERVICE FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - property	\$ 523,195	\$ 527,270	\$ 4,075
Investment earnings	<u>5,000</u>	<u>3,945</u>	<u>(1,055)</u>
Total revenues	<u>528,195</u>	<u>531,215</u>	<u>3,020</u>
EXPENDITURES			
Debt service:			
Principal	475,000	475,000	-
Interest and fiscal charges	<u>49,195</u>	<u>49,195</u>	<u>-</u>
Total debt service	<u>524,195</u>	<u>524,195</u>	<u>-</u>
Total expenditures	<u>524,195</u>	<u>524,195</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,000	7,020	3,020
FUND BALANCE, BEGINNING	<u>82,233</u>	<u>82,233</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 86,233</u>	<u>\$ 89,253</u>	<u>\$ 3,020</u>

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NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the City has decided that periodic determination of net income is appropriate for accountability purposes.

Sanitary Landfill – This fund is used to account for solid waste collection and disposal services provided to the residents of the City.

Airport – This fund is used to account for municipal airport services and to support air transportation and charter services.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2008

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 527,268	\$ -	\$ 527,268
Accounts receivable (net of allowances for uncollectibles)	<u>1,918</u>	<u>8,940</u>	<u>10,858</u>
Total current assets	<u>529,186</u>	<u>8,940</u>	<u>538,126</u>
Noncurrent assets:			
Capital assets:			
Land	40,000	594,361	634,361
Buildings and improvements	375,109	3,326,418	3,701,527
Equipment	597,363	115,131	712,494
Construction in progress	-	380,189	380,189
Less: accumulated depreciation	<u>(665,980)</u>	<u>(476,417)</u>	<u>(1,142,397)</u>
Total capital assets	<u>346,492</u>	<u>3,939,682</u>	<u>4,286,174</u>
Total noncurrent assets	<u>346,492</u>	<u>3,939,682</u>	<u>4,286,174</u>
Total assets	<u>875,678</u>	<u>3,948,622</u>	<u>4,824,300</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,400	585	4,985
Accrued liabilities	2,486	-	2,486
Due to other funds	-	61,922	61,922
Accrued interest payable	8,786	2,641	11,427
Capital lease	46,181	-	46,181
Bonds payable	-	17,000	17,000
Compensated absences payable	<u>388</u>	<u>-</u>	<u>388</u>
Total current liabilities	<u>62,241</u>	<u>82,148</u>	<u>144,389</u>
Long-term liabilities:			
Capital lease	131,156	-	131,156
Bonds payable	-	182,155	182,155
Compensated absences payable	1,554	-	1,554
Liability for landfill closure	<u>277,184</u>	<u>-</u>	<u>277,184</u>
Total long-term liabilities	<u>409,894</u>	<u>182,155</u>	<u>592,049</u>
Total liabilities	<u>472,135</u>	<u>264,303</u>	<u>736,438</u>
NET ASSETS			
Invested in capital assets, net of related debt	169,155	3,740,527	3,909,682
Unrestricted	<u>234,388</u>	<u>(56,208)</u>	<u>178,180</u>
Total net assets	<u>\$ 403,543</u>	<u>\$ 3,684,319</u>	<u>\$ 4,087,862</u>

CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
OPERATING REVENUES			
Gate charges	\$ 275,915	\$ -	\$ 275,915
Hanger rental	-	64,264	64,264
Other service charges	<u>-</u>	<u>3,922</u>	<u>3,922</u>
Total operating revenues	<u>275,915</u>	<u>68,186</u>	<u>344,101</u>
OPERATING EXPENSES			
Personnel services	77,976	-	77,976
Utilities	632	17,769	18,401
Repairs and maintenance	12,282	21,675	33,957
Other supplies and expenses	72,982	6,715	79,697
Depreciation	<u>110,402</u>	<u>65,587</u>	<u>175,989</u>
Total operating expenses	<u>274,274</u>	<u>111,746</u>	<u>386,020</u>
OPERATING INCOME (LOSS)	1,641	(43,560)	(41,919)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	15,127	-	15,127
Interest expense	<u>(16,075)</u>	<u>(15,272)</u>	<u>(31,347)</u>
Total nonoperating revenues (expenses)	<u>(948)</u>	<u>(15,272)</u>	<u>(16,220)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	693	(58,832)	(58,139)
CAPITAL CONTRIBUTIONS	-	477,093	477,093
TRANSFER IN	<u>-</u>	<u>312,500</u>	<u>312,500</u>
CHANGE IN NET ASSETS	693	730,761	731,454
TOTAL NET ASSETS, BEGINNING	<u>402,850</u>	<u>2,953,558</u>	<u>3,356,408</u>
TOTAL NET ASSETS, ENDING	<u>\$ 403,543</u>	<u>\$ 3,684,319</u>	<u>\$ 4,087,862</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 276,194	\$ 71,381	\$ 347,575
Cash payments to employees	(80,949)	-	(80,949)
Cash payments to suppliers for goods and services	<u>(84,790)</u>	<u>(53,008)</u>	<u>(137,798)</u>
Cash provided by operating activities	<u>110,455</u>	<u>18,373</u>	<u>128,828</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund receivables repaid by other funds	17,717	-	17,717
Interfund payables repaid to other funds	-	(17,717)	(17,717)
Cash borrowed from other funds	-	61,922	61,922
Transfers from other funds	<u>-</u>	<u>312,500</u>	<u>312,500</u>
Cash provided by noncapital financing activities	<u>17,717</u>	<u>356,705</u>	<u>374,422</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on capital lease	(42,583)	-	(42,583)
Principal payments on bonds	-	(15,979)	(15,979)
Interest and fiscal charges on debt	(16,075)	(15,214)	(31,289)
Proceeds from sale of capital assets	-	631	631
Acquisition and construction of capital assets	<u>-</u>	<u>(344,516)</u>	<u>(344,516)</u>
Cash used by capital and related financing activities	<u>(58,658)</u>	<u>(375,078)</u>	<u>(433,736)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>15,127</u>	<u>-</u>	<u>15,127</u>
Cash provided by investing activities	<u>15,127</u>	<u>-</u>	<u>15,127</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,641	-	84,641
CASH AND CASH EQUIVALENTS, BEGINNING	<u>441,073</u>	<u>-</u>	<u>441,073</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 525,714</u>	<u>\$ -</u>	<u>\$ 525,714</u>

(continued)

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,641	\$(43,560)	\$(41,919)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	110,402	65,587	175,989
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	279	3,195	3,474
Increase (decrease) in accounts payable	1,106	(6,849)	(5,743)
Increase (decrease) in accrued liabilities	(1,531)	-	(1,531)
Increase (decrease) in compensated absences	(1,442)	-	(1,442)
Total adjustments	<u>108,814</u>	<u>61,933</u>	<u>170,747</u>
Net cash provided by operating activities	<u>\$ 110,455</u>	<u>\$ 18,373</u>	<u>\$ 128,828</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 477,093</u>	<u>\$ 477,093</u>

FIDUCIARY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds.

Senior Citizens – This fund is used to account for assets held for the benefit of a citizens' group.

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED SEPTEMBER 30, 2008

	Balance October 1, 2007	Additions	Deductions	Balance September 30, 2008
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>SENIOR CITIZENS</u>				
Assets				
Due from other funds	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,059</u>
Total assets	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,059</u>
Liabilities				
Due to others	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,059</u>
Total liabilities	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,059</u>

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STATISTICAL SECTION

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	57
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources. Although sales taxes are the City's most significant local revenue source, information about revenue base is unavailable and information about principal revenue payers is confidential under Texas statutes. Trend information about sales tax revenues is provided in Table 2. Additionally, information about the City's second most significant local revenue source, the property tax, is provided.	63
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.	67
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	72
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	74

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF STEPHENVILLE, TEXAS

NET ASSETS BY COMPONENT

LAST SIX FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities:						
Invested in capital assets, net of related debt	\$ 8,671,383	\$ 8,877,241	\$ 9,070,652	\$ 9,734,777	\$ 10,157,475	\$ 10,513,386
Restricted	-	620,104	295,721	381,849	366,934	397,365
Unrestricted	<u>7,932,439</u>	<u>8,181,076</u>	<u>9,548,977</u>	<u>10,237,660</u>	<u>11,232,319</u>	<u>12,162,240</u>
Total governmental activities net assets	<u>\$ 16,603,822</u>	<u>\$ 17,678,421</u>	<u>\$ 18,915,350</u>	<u>\$ 20,354,286</u>	<u>\$ 21,756,728</u>	<u>\$ 23,072,991</u>
Business-type activities:						
Invested in capital assets, net of related debt	\$ 11,789,690	\$ 14,229,406	\$ 16,190,916	\$ 17,432,394	\$ 16,564,217	\$ 21,231,388
Restricted	508,583	470,750	514,842	599,910	665,099	554,647
Unrestricted	<u>5,621,026</u>	<u>4,134,841</u>	<u>5,301,524</u>	<u>6,516,830</u>	<u>9,087,784</u>	<u>7,178,489</u>
Total business-type activities net assets	<u>\$ 17,919,299</u>	<u>\$ 18,834,997</u>	<u>\$ 22,007,282</u>	<u>\$ 24,549,134</u>	<u>\$ 26,317,100</u>	<u>\$ 28,964,524</u>
Total:						
Invested in capital assets, net of related debt	\$ 20,461,073	\$ 23,106,647	\$ 25,261,568	\$ 27,167,171	\$ 26,721,692	\$ 31,744,774
Restricted	508,583	1,090,854	810,563	981,759	1,032,033	952,012
Unrestricted	<u>13,553,465</u>	<u>12,315,917</u>	<u>14,850,501</u>	<u>16,754,490</u>	<u>20,320,103</u>	<u>19,340,729</u>
Total net assets	<u>\$ 34,523,121</u>	<u>\$ 36,513,418</u>	<u>\$ 40,922,632</u>	<u>\$ 44,903,420</u>	<u>\$ 48,073,828</u>	<u>\$ 52,037,515</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS

LAST SIX FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
EXPENSES						
Governmental activities:						
General government	\$ 1,262,164	\$ 1,421,563	\$ 1,453,986	\$ 1,441,939	\$ 1,591,258	\$ 1,331,583
Public safety	4,028,747	4,026,402	4,345,846	4,689,443	5,187,628	5,504,975
Streets	894,193	995,046	979,051	1,098,979	1,144,681	1,183,435
Culture and recreation	1,522,896	1,574,032	1,582,864	1,646,017	1,733,627	2,166,545
Community development	317,743	296,244	348,177	343,135	381,091	395,182
Interest on long-term debt	153,445	130,388	109,153	91,817	65,926	103,490
Total governmental activities expenses	<u>8,179,188</u>	<u>8,443,675</u>	<u>8,819,077</u>	<u>9,311,330</u>	<u>10,104,211</u>	<u>10,685,210</u>
Business-type activities:						
Water and wastewater	3,790,830	4,582,690	4,367,671	4,681,174	4,776,359	4,526,893
Storm water drainage	14,034	35,462	166,346	232,955	141,516	245,371
Sanitary landfill	211,159	151,309	99,078	119,832	272,010	290,349
Airport	99,847	101,082	8,633	18,075	130,169	127,018
Total business-type activities expenses	<u>4,115,870</u>	<u>4,870,543</u>	<u>4,641,728</u>	<u>5,052,036</u>	<u>5,320,054</u>	<u>5,189,631</u>
Total expenses	<u>\$ 12,295,058</u>	<u>\$ 13,314,218</u>	<u>\$ 13,460,805</u>	<u>\$ 14,363,366</u>	<u>\$ 15,424,265</u>	<u>\$ 15,874,841</u>
PROGRAM REVENUES						
Governmental activities:						
Charges for services:						
General government	\$ 21,421	\$ 195,176	\$ 172,292	\$ 177,636	\$ 243,929	\$ 219,353
Public safety	884,349	524,561	488,292	600,332	687,567	906,131
Streets	22,388	28,748	17,213	17,444	27,425	24,046
Culture and recreation	157,741	147,563	135,607	132,125	171,931	145,225
Community development	82,182	165,803	163,490	180,304	160,745	272,729
Operating grants and contributions	146,257	189,805	125,068	172,884	115,859	57,969
Capital grants and contributions	185,625	366,478	556,425	177,503	115,556	148
Total governmental activities program revenues	<u>1,499,963</u>	<u>1,618,134</u>	<u>1,658,387</u>	<u>1,458,228</u>	<u>1,523,012</u>	<u>1,625,601</u>
Business-type activities:						
Charges for services:						
Water and wastewater	4,261,555	4,564,193	5,245,901	5,628,658	5,092,578	5,469,932
Sanitary landfill	154,650	174,152	174,845	162,306	170,814	275,915
Airport	24,865	31,077	39,088	51,037	61,916	68,186
Storm water drainage	511,427	478,143	485,600	485,314	500,779	577,766
Capital grants and contributions	273,101	411,474	1,513,020	599,393	169,370	870,718
Total business-type activities program revenues	<u>5,225,598</u>	<u>5,659,039</u>	<u>7,458,454</u>	<u>6,926,708</u>	<u>5,995,457</u>	<u>7,262,517</u>
Total program revenues	<u>\$ 6,725,561</u>	<u>\$ 7,277,173</u>	<u>\$ 9,116,841</u>	<u>\$ 8,384,936</u>	<u>\$ 7,518,469</u>	<u>\$ 8,888,118</u>

(continued)

TABLE 2

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST SIX FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
NET (EXPENSE) REVENUES						
Governmental activities	\$(6,679,225)	\$(6,825,541)	\$(7,160,690)	\$(7,853,102)	\$(8,581,199)	\$(9,059,609)
Business-type activities	<u>1,109,728</u>	<u>788,496</u>	<u>2,816,726</u>	<u>1,874,672</u>	<u>675,403</u>	<u>2,072,886</u>
Total net expense	<u>(5,569,497)</u>	<u>(6,037,045)</u>	<u>(4,343,964)</u>	<u>(5,978,430)</u>	<u>(7,905,796)</u>	<u>(6,986,723)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
Governmental activities:						
Taxes:						
Property - general purposes	1,994,728	2,249,922	2,447,610	2,657,106	2,913,521	3,131,702
Property - debt service	545,552	540,467	448,663	437,146	476,117	527,921
Sales	3,217,670	3,538,100	3,654,232	4,101,973	4,351,269	4,745,309
Franchise	934,965	1,209,036	1,264,298	1,423,615	1,370,838	1,169,858
Other	208,534	262,467	292,447	312,528	388,013	434,498
Investment earnings	196,542	87,990	286,301	441,986	623,810	454,269
Miscellaneous	33,971	12,158	54,068	34,663	75,994	17,186
Transfers	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>	<u>(116,979)</u>	<u>(215,921)</u>	<u>(104,871)</u>
Total governmental activities	<u>7,447,600</u>	<u>7,900,140</u>	<u>8,397,619</u>	<u>9,292,038</u>	<u>9,983,641</u>	<u>10,375,872</u>
Business-type activities:						
Investment earnings	105,970	100,773	305,559	518,164	876,642	469,667
Miscellaneous	9,137	26,429	-	32,037	-	-
Transfers	<u>(315,638)</u>	<u>-</u>	<u>50,000</u>	<u>116,979</u>	<u>215,921</u>	<u>104,871</u>
Total business-type activities	<u>(200,531)</u>	<u>127,202</u>	<u>355,559</u>	<u>667,180</u>	<u>1,092,563</u>	<u>574,538</u>
Total general revenues and other changes in net assets	<u>7,247,069</u>	<u>8,027,342</u>	<u>8,753,178</u>	<u>9,959,218</u>	<u>11,076,204</u>	<u>10,950,410</u>
CHANGE IN NET ASSETS						
Governmental activities	768,375	1,074,599	1,236,929	1,438,936	1,402,442	1,316,263
Business-type activities	<u>909,197</u>	<u>915,698</u>	<u>3,172,285</u>	<u>2,541,852</u>	<u>1,767,966</u>	<u>2,647,424</u>
Total change in net assets	<u>\$ 1,677,572</u>	<u>\$ 1,990,297</u>	<u>\$ 4,409,214</u>	<u>\$ 3,980,788</u>	<u>\$ 3,170,408</u>	<u>\$ 3,963,687</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF STEPHENVILLE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ 7,178	\$ 4,072	\$ 13,349	\$ 10,352	\$ 15,224	\$ 8,653
Unreserved	<u>5,620,092</u>	<u>5,499,615</u>	<u>5,958,100</u>	<u>6,429,861</u>	<u>7,309,934</u>	<u>8,017,965</u>	<u>8,361,416</u>	<u>9,045,429</u>	<u>10,039,416</u>	<u>9,555,553</u>
Total general fund	<u>\$ 5,620,092</u>	<u>\$ 5,499,615</u>	<u>\$ 5,958,100</u>	<u>\$ 6,429,861</u>	<u>\$ 7,317,112</u>	<u>\$ 8,022,037</u>	<u>\$ 8,374,765</u>	<u>\$ 9,055,781</u>	<u>\$ 10,054,640</u>	<u>\$ 9,564,206</u>
All other governmental funds										
Reserved										
Debt service funds	\$ 1,077	\$ 12,873	\$ 24,139	\$ 30,337	\$ 41,081	\$ 41,285	\$ 50,563	\$ 69,443	\$ 82,233	\$ 89,253
Unreserved, reported in:										
Special revenue funds	157,561	186,653	232,461	207,743	237,911	211,765	247,743	318,028	280,798	350,750
Capital projects funds	<u>1,779,154</u>	<u>2,122,160</u>	<u>1,109,119</u>	<u>895,894</u>	<u>772,431</u>	<u>735,191</u>	<u>1,063,030</u>	<u>1,051,972</u>	<u>1,069,303</u>	<u>2,429,680</u>
Total all other governmental funds	<u>\$ 1,937,792</u>	<u>\$ 2,321,686</u>	<u>\$ 1,365,719</u>	<u>\$ 1,133,974</u>	<u>\$ 1,051,423</u>	<u>\$ 988,241</u>	<u>\$ 1,361,336</u>	<u>\$ 1,439,443</u>	<u>\$ 1,432,334</u>	<u>\$ 2,869,683</u>

CITY OF STEPHENVILLE, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
REVENUES										
Taxes	\$ 6,158,011	\$ 6,418,350	\$ 6,689,180	\$ 7,067,904	\$ 6,891,072	\$ 7,804,900	\$ 8,103,134	\$ 8,942,235	\$ 9,506,528	\$ 10,004,265
Special assessments	-	664,688	-	55,415	-	-	402,789	28,122	-	-
Licenses, fees and permits	78,228	88,671	64,408	86,583	84,669	168,519	168,523	183,839	164,071	275,887
Fines and forfeitures	174,225	169,085	168,271	135,897	248,426	229,922	207,407	279,716	353,889	361,027
Intergovernmental	231,738	669,130	207,050	242,187	249,564	306,510	104,228	188,096	111,889	87,730
Service charges	349,452	367,715	408,757	523,825	545,763	697,355	651,021	640,935	738,526	839,684
Investment earnings	507,744	445,529	406,277	275,793	194,772	87,991	286,300	441,986	623,810	454,269
Miscellaneous	38,287	29,767	68,242	61,705	125,027	52,734	108,222	60,110	119,731	19,734
Total revenues	<u>7,537,685</u>	<u>8,852,935</u>	<u>8,012,185</u>	<u>8,449,309</u>	<u>8,339,293</u>	<u>9,347,931</u>	<u>10,031,624</u>	<u>10,765,039</u>	<u>11,618,444</u>	<u>12,042,596</u>
EXPENDITURES										
General government	938,789	947,835	942,036	1,091,746	1,113,323	1,274,807	1,231,709	1,349,248	1,491,202	1,293,925
Public safety	2,885,336	3,146,946	3,325,599	3,603,448	3,821,859	3,874,454	4,140,738	4,562,217	4,955,771	5,459,268
Streets	665,954	562,728	588,038	620,714	561,646	630,057	578,126	699,290	735,614	824,764
Culture and recreation	1,013,705	1,081,294	1,243,096	1,294,316	1,357,624	1,336,974	1,412,305	1,466,261	1,518,938	1,931,846
Community development	188,246	182,517	236,431	250,776	317,743	295,036	346,969	337,659	375,614	394,833
Debt service										
Principal	486,967	429,391	430,000	450,000	470,000	500,000	420,000	430,000	455,000	475,000
Interest	263,320	225,283	200,415	178,813	157,032	133,441	111,582	91,817	71,105	49,195
Bond issuance costs	-	-	-	-	-	-	-	-	-	12,725
Capital outlay	<u>2,747,738</u>	<u>2,184,074</u>	<u>1,667,368</u>	<u>868,370</u>	<u>366,753</u>	<u>661,419</u>	<u>1,014,372</u>	<u>952,446</u>	<u>807,528</u>	<u>1,902,168</u>
Total expenditures	<u>9,190,055</u>	<u>8,760,068</u>	<u>8,632,983</u>	<u>8,358,183</u>	<u>8,165,980</u>	<u>8,706,188</u>	<u>9,255,801</u>	<u>9,888,938</u>	<u>10,410,772</u>	<u>12,343,724</u>

(continued)

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,652,370)</u>	<u>\$ 92,867</u>	<u>\$ (620,798)</u>	<u>\$ 91,126</u>	<u>\$ 173,313</u>	<u>\$ 641,743</u>	<u>\$ 775,823</u>	<u>\$ 876,101</u>	<u>\$ 1,207,672</u>	<u>\$ (301,128)</u>
OTHER FINANCING SOURCES (USES)										
Issuance of bonds	-	-	-	-	-	-	-	-	-	1,325,000
Proceeds from sale of capital assets	48,329	26,449	-	-	-	-	-	-	-	27,914
Transfers in	1,168,134	800,449	448,316	251,085	423,414	90,000	90,000	94,500	55,000	207,629
Transfers out	(1,763,910)	(656,348)	(325,000)	(102,195)	(107,776)	(90,000)	(140,000)	(211,479)	(270,921)	(312,500)
Total other financing sources (uses)	<u>(547,447)</u>	<u>170,550</u>	<u>123,316</u>	<u>148,890</u>	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>	<u>(116,979)</u>	<u>(215,921)</u>	<u>1,248,043</u>
NET CHANGE IN FUND BALANCES	<u>\$ (2,199,817)</u>	<u>\$ 263,417</u>	<u>\$ (497,482)</u>	<u>\$ 240,016</u>	<u>\$ 488,951</u>	<u>\$ 641,743</u>	<u>\$ 725,823</u>	<u>\$ 759,122</u>	<u>\$ 991,751</u>	<u>\$ 946,915</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>13.2%</u>	<u>11.1%</u>	<u>10.0%</u>	<u>9.2%</u>	<u>8.7%</u>	<u>8.5%</u>	<u>6.9%</u>	<u>6.2%</u>	<u>5.8%</u>	<u>5.3%</u>

TABLE 5

CITY OF STEPHENVILLE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
1999	\$ 251,534,041	\$ 279,552,526	\$ 120,232,379	\$ 191,106,538	\$ 460,212,408	\$0.4724	\$ 469,604,498
2000	258,328,927	282,242,502	117,284,814	194,131,922	463,724,321	0.4724	473,188,083
2001	275,008,292	277,180,795	110,482,050	192,478,165	470,192,972	0.4724	479,788,747
2002	277,642,872	302,960,725	97,250,070	189,978,791	487,874,876	0.4800	497,831,506
2003	300,285,040	341,944,306	97,673,680	221,495,172	518,407,854	0.4850	528,987,606
2004	332,268,337	380,965,905	111,273,080	249,575,629	574,931,693	0.4850	586,664,993
2005	352,795,683	386,744,845	105,901,750	253,232,383	592,209,895	0.4850	604,295,811
2006	387,312,400	403,019,380	113,971,870	260,321,554	643,982,096	0.4750	657,124,588
2007	436,191,340	446,012,320	124,665,270	287,207,489	719,661,441	0.4650	734,348,409
2008	473,515,020	493,287,390	139,045,430	287,501,749	818,346,091	0.4450	835,047,032

Source: Erath County Appraisal District.

Note: Property in Erath County is reassessed once every three years on average. The County assesses property at approximately 95 percent of actual value for commercial, industrial and residential property. Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

TABLE 6

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates			Total Direct and Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Stephenville School District	Middle Trinity Water District	Erath County	
1999	\$0.3377	\$0.1347	\$0.4724	\$1.3000	-	\$0.4785	\$2.2509
2000	0.3359	0.1365	0.4724	1.4500	-	0.4785	2.4009
2001	0.3552	0.1172	0.4724	1.7500	-	0.4785	2.7009
2002	0.3678	0.1122	0.4800	0.1690	-	0.4785	1.1275
2003	0.3812	0.1038	0.4850	1.6900	\$0.0150	0.4700	2.6600
2004	0.3913	0.0937	0.4850	1.6700	0.0150	0.4512	2.6212
2005	0.4107	0.0743	0.4850	1.6700	0.0150	0.4625	2.6325
2006	0.4079	0.0671	0.4750	1.6600	0.0150	0.4410	2.5910
2007	0.3996	0.0654	0.4650	1.5199	0.0150	0.4352	2.4351
2008	0.3811	0.0639	0.4450	1.1920	0.0150	0.4187	2.0707

Source: Erath County Appraisal District

Notes: The City's basic property tax rate may be increased only by a majority vote of the City's residents.
Rates for debt service are set based on each year's requirements.

Overlapping rates are those of local and county governments that apply to property owners within the City of Stephenville,
The Middle Trinity Water District did not exist in fiscal years 1999 through 2002.

TABLE 7

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2008		1999	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
FMC Company	\$ 39,303,300	4.41%	\$ 25,330,327	5.48%
Saint Gobain Abrasives	9,753,003	1.09%	16,977,814	3.67%
Bosque River Associates	9,494,910	1.07%	8,533,480	1.84%
TXU Electric Delivery	8,824,410	0.99%	6,240,020	1.35%
Stephenville Student Housing LP	8,750,010	0.98%	-	- %
Wal-Mart Stores, Inc. #1	7,758,020	0.87%	13,867,090	3.00%
Saint Gobain Abrasives	7,047,610	0.79%	-	- %
United Telephone Company (Embarq)	6,451,400	0.72%	5,129,190	1.11%
PRVS Holdings, L.L.C.	6,397,050	0.72%	-	- %
Wilmington Trust (Wal-Mart #2)	6,351,350	0.71%	-	- %
Rayloc Genaut	-	- %	4,880,935	1.06%
Emerson Electric Company	-	- %	4,285,324	0.93%
FMC Technologies	-	- %	4,288,275	0.93%
Subtotal	\$ 110,131,063	12.35%	\$ 89,532,455	19.37%
Remaining Roll	<u>780,637,386</u>	<u>87.65%</u>	<u>373,000,750</u>	<u>80.63%</u>
Total	<u>\$ 890,768,449</u>	<u>100.00%</u>	<u>\$ 462,533,205</u>	<u>100.00%</u>

Source: Erath County Appraisal District State Property Tax Board Report.

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

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$ 2,181,037	\$ 2,133,063	97.80%	\$ 43,891	\$ 2,176,954	99.81%
2000	2,185,007	2,143,729	98.11%	37,445	2,181,174	99.82%
2001	2,236,217	2,192,628	98.05%	39,342	2,231,970	99.81%
2002	2,348,927	2,294,810	97.70%	50,076	2,344,886	99.83%
2003	2,513,625	2,462,155	97.95%	43,404	2,505,559	99.68%
2004	2,788,419	2,726,244	97.77%	56,290	2,782,534	99.79%
2005	2,832,529	2,808,747	99.16%	16,188	2,824,935	99.73%
2006	3,066,225	3,018,008	98.43%	40,723	3,058,731	99.76%
2007	3,344,539	3,307,083	98.88%	22,447	3,329,530	99.55%
2008	3,641,808	3,602,598	98.92%	-	3,602,598	98.92%

Sources: Erath County Appraisal District and Erath County Tax Assessor-Collector.

TABLE 9

CITY OF STEPHENVILLE, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities			Total	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Participation	Term Loan	Water Revenue Bonds	Certificates of Participation	Capital Leases			
1999	\$ 2,935,000	\$ 1,770,000	\$ 40,278	\$ 10,840,000	\$ 125,000	\$ -	\$ 15,710,278	4.90%	\$ 1,072
2000	2,630,000	1,665,000	20,887	9,920,000	-	-	14,235,887	4.36%	968
2001	2,310,000	1,555,000	-	14,455,000	-	-	18,320,000	5.21%	1,228
2002	1,970,000	1,445,000	-	13,455,000	1,150,000	-	18,020,000	5.03%	1,201
2003	1,615,000	1,330,000	-	6,660,000	7,905,000	-	17,510,000	4.79%	1,118
2004	1,235,000	1,210,000	-	6,295,000	14,174,233	-	22,914,233	5.70%	1,443
2005	945,000	1,080,000	-	5,910,000	13,250,233	-	21,185,233	5.80%	1,300
2006	645,000	950,000	-	5,500,000	14,305,233	259,184	21,659,417	N/A	1,283
2007	330,000	810,000	-	5,210,000	17,660,134	219,920	24,230,054	N/A	1,421
2008	1,325,000	665,000	-	4,905,000	20,644,155	177,337	27,716,492	N/A	1,590

Note: See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF STEPHENVILLE, TEXAS

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	Net General Bonded Debt Outstanding			Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligations	Accumulated Resources for Repayment			
1999	\$ 2,935,000	\$ 1,810,278	\$ 1,077	\$ 4,744,201	1.03%	\$ 324
2000	2,630,000	1,685,887	12,873	4,303,014	0.93%	293
2001	2,310,000	1,555,000	24,139	3,840,861	0.82%	257
2002	1,970,000	1,445,000	30,336	3,384,664	0.69%	226
2003	1,615,000	1,330,000	41,082	2,903,918	0.56%	185
2004	1,235,000	1,210,000	41,285	2,403,715	0.42%	151
2005	945,000	1,080,000	50,563	1,974,437	0.33%	121
2006	645,000	950,000	69,443	1,525,557	0.24%	90
2007	330,000	810,000	82,233	1,057,767	0.15%	62
2008	1,325,000	665,000	89,253	1,900,747	0.23%	109

Notes:

See Table 5 for property value data.

Population data can be found in Table 14.

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2008

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes Stephenville Independent School District	\$ 11,599,606	68.35%	\$ 7,928,331
City direct debt			<u>1,990,000</u>
Total direct and overlapping debt			<u>\$ 9,918,331</u>

Sources:

Assessed value data used to estimate applicable percentages provided by the Erath County Appraisal District and assessment debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Stephenville. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF STEPHENVILLE, TEXAS

LEGAL DEBT MARGIN AND TAX RATE LIMITATIONS INFORMATION

As a home rule city, the City of Stephenville is not limited by law in the amount of debt it may issue.

Under Article XI, Section 5 of the Texas Constitution, 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 the City.

All taxable property within the City is subject to assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal and interest on the bonds within the limits prescribed by law. Under rules prescribed by law. Under rules promulgated by the Office of the Attorney General of Texas, such office will not approve tax bonds of the City unless the City can demonstrate its ability to pay debt service requirements on all outstanding City tax bonds, including the issue to be approved.

Tax Rate Limitation Calculation for Fiscal Year 2008

Taxable assessed valuation	\$	818,346,091
Constitutional tax rate limit		2.50% of assessed valuation
Maximum constitutional revenue available	\$	20,458,652
Tax rate to achieve maximum tax revenue		\$2.50 per \$100 of valuation
Tax rate for FY 2007-2008		\$0.445 per \$100 of valuation
Available unused constitutional max tax rate		\$2.025 per \$100 of valuation
Debt applicable to limit:		
General obligation debt	\$	1,140

DEBT TAX RATE ADEQUACY

2008 Principal and Interest Requirements.....	\$	523,690
\$0.0742 Tax Rate at 98% Collection Produces.....		595,069
Average Annual Principal and Interest Requirement, 2008-2018.....		284,788
\$0.0202 Tax Rate at 98% Collection Produces.....		162,000
Maximum Principal and Interest Requirements.....		523,690
\$0.0742 Tax Rate at 98% Collection Produces.....		595,069

DEBT SERVICE FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2008		\$	523,690
Debt Service Fund, 9-30-07	\$	82,232	
Debt Service Fund Tax Levy @ 98% Collection		<u>595,069</u>	<u>\$ 677,301</u>

CITY OF STEPHENVILLE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater Revenue Bonds						Coverage
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
1999	\$ 4,285,128	\$ 1,882,313	\$ 2,402,815	\$ 1,010,000	\$ 543,862	1.55	
2000	4,664,232	3,906,752	757,480	1,045,000	500,290	0.49	
2001	4,743,061	2,621,741	2,121,320	965,000	465,568	1.48	
2002	4,578,747	2,459,300	2,119,447	1,000,000	641,944	1.29	
2003	4,372,612	2,321,847	2,050,765	1,145,000	642,281	1.15	
2004	4,556,045	2,569,643	1,986,402	1,240,000	559,001	1.10	
2005	5,511,586	2,553,909	2,957,677	1,331,000	712,056	1.45	
2006	5,628,658	2,931,743	2,696,915	1,355,000	752,077	1.28	
2007	5,092,578	2,946,356	2,146,222	1,220,000	819,654	1.05	
2008	5,469,932	2,851,562	2,618,370	1,290,000	650,238	1.35	

Note: Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF STEPHENVILLE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>College Enrollment</u>	<u>Unemployment Rate</u>
1999	14,650	\$ 320,703,150	\$ 21,891	3,419	6,163	2.9%
2000	14,700	326,736,900	22,227	3,361	6,359	2.7%
2001	14,921	351,419,392	23,552	3,477	6,549	2.0%
2002	15,000	355,515,000	23,701	3,444	6,827	3.3%
2003	15,665	359,402,095	22,943	3,530	7,197	3.2%
2004	15,884	382,010,200	24,050	3,417	7,347	2.7%
2005	16,300	417,720,100	25,627	3,512	7,589	3.9%
2006	16,882	438,003,490	25,945	3,550	7,776	3.9%
2007	17,050	N/A	N/A	3,521	7,840	3.8%
2008	17,428	N/A	N/A	3,496	7,763	4.0%

Sources: Population, median age, and education level information provided by the State Department of Planning. Personal income and unemployment data provided by the State Department of Commerce and Labor. School enrollment data provided by the Stephenville Independent School District and Tarleton State University.

Notes: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

Personal income is not available for 2006 - 2008.

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2008	
	Employees	Percentage of Total City Employment
Tarleton State University	895	4.91%
FMC Company	630	3.46%
Saint Gobain Abrasives	575	3.16%
Stephenville Independent School District	468	2.57%
Wal-Mart Stores, Inc.	450	2.47%
Scheiber Foods	446	2.45%
Harris Methodist Erath County Hospital	255	1.40%
Western Dairy Transport	197	1.08%
Outlaw Conversions	190	1.04%
Erath County	179	0.98%
United Cooperative Services	150	0.82%
Emerson Electric Company	150	0.82%
Stephenville Medical & Surgical Clinic	148	0.81%
Caporal Forging	120	0.66%
Fibergrate Composite Structures	115	0.63%
Associated Milk Producers	110	0.60%
Bruner Motors	101	0.55%
Southwestern Linen	38	0.21%
Texstar Ford	35	0.19%
USTRA	18	0.10%
Subtotal	5,270	28.91%
Remaining employers	12,950	71.09%
Total	18,220	100.00%

Source:

City Community Development Division. Total employee data is provided by the State Department of Commerce and Labor.

Notes:

Total employee information is based on entire Erath County. Principal employers are only those that operate from within the corporate City limits of Stephenville.

Information for 1999 is not available.

CITY OF STEPHENVILLE, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fulltime Equivalent Employees as of September 30,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Management services	4	4	4	4	4	4	4	4	4	4
Finance	7	7	6	6	7	7	7	7	7	7
Planning	1	1	2	2	2	2	2	2	2	2
Building	1	1	1	1	1	1	1	2	2	2
Other	1	1	1	1	1	1	1	1	1	1
Police										
Officers	30	30	30	30	30	31	31	31	34	38
Civilians	10	10	10	11	11	11	13	13	12	12
Fire										
Firefighters and officers	23	23	23	26	26	26	26	27	28	31
Parks and recreation	9	9	11	11	13	13	13	13	13	13
Library	4	4	4	4	4	4	4	4	3	3
Streets	7	7	7	7	7	7	7	7	7	7
Water	8	8	9	9	9	9	9	10	13	13
Wastewater	7	7	8	8	8	8	8	8	5	5
Landfill	<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>2</u>
Total	<u>114</u>	<u>114</u>	<u>118</u>	<u>122</u>	<u>125</u>	<u>126</u>	<u>128</u>	<u>131</u>	<u>133</u>	<u>140</u>

Source: City Human Resource Office

Notes: A fulltime employee is scheduled to work 2080 hours per year (including vacation and sick leave). Fulltime equivalent employment is calculated by dividing total labor hours by 2080.

TABLE 17

**CITY OF STEPHENVILLE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Building permits issued	238	242	265	234	222	140	172	125	153	135
Building permits value	\$10,293,611	\$14,721,989	\$5,563,166	\$12,118,416	\$10,467,400	\$21,515,373	\$18,442,334	\$12,262,542	\$16,144,842	\$27,821,098
Police										
Calls for service	N/A	9,138	9,114	10,207	10,203	10,483	10,358	11,234	19,732	11,739
Physical arrests	1,019	1,019	716	762	1,134	825	959	999	1,447	1,023
Parking violations	182	182	805	404	530	324	386	334	498	171
Traffic violations	3,178	3,178	4,501	3,164	5,094	5,350	3,588	3,066	4,469	2,473
Fire										
Ambulance responses	1,236	1,271	1,321	1,468	1,372	1,183	1,291	1,255	1,537	1,472
Fires extinguished	318	376	357	412	339	185	235	305	235	219
Inspections	150	150	149	149	135	132	109	105	313	280
Other public works										
Street resurfacing (miles)	0.32	1.30	1.88	2.35	2.39	1.35	1.14	1.52	2.70	2.23
Library										
Volumes in collection	42,214	43,065	41,905	40,161	43,331	46,938	48,548	47,510	43,737	43,827
Total volumes borrowed	82	120	130	237	110	138	155	114	116	94
Water										
New connections	5,256	5,256	5,319	5,319	5,242	5,521	5,253	5,550	5,660	5,670
Water main breaks	51	47	53	52	49	54	50	48	49	44
Average daily consumption (thousands of gallons)	2,295,000	2,482,000	2,341,000	2,158,000	2,124,000	1,971,990	2,042,000	2,254,000	1,828,000	2,080,000
Peak daily consumption (thousands of gallons)	4,589,000	4,700,000	4,549,000	4,174,000	4,133,000	3,598,000	3,499,000	4,397,000	3,091,000	3,848,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	1,253,000	1,253,000	1,387,000	1,311,000	1,354,000	1,456,000	1,334,000	1,414,000	1,691,000	1,548,000

Source: Various City departments

TABLE 18

**CITY OF STEPHENVILLE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	6	9	9	10	10	10	10	10	10
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Other public works										
Streets (miles)	87	87	87	87	92	92	92	92	96	96
Highways (miles)	19	19	19	19	19	19	19	19	21	21
Streetlights	952	983	992	992	1,013	1,013	1,013	1,013	1,070	1,080
Parks and recreation										
Acreage	126	126	126	134	134	134	134	134	134	130
Playgrounds	3	3	3	4	4	4	4	4	4	4
Baseball/softball diamonds	9	9	9	9	9	9	9	9	9	9
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	58	58	58	112	116	117	117	120	122	124
Fire hydrants	616	616	623	623	650	670	670	680	732	747
Storage capacity (thousands of gallons)	4,500,000	4,500,000	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,750,000
Wastewater										
Sanitary sewers (miles)	68	68	68	96	105	105	110	110	113	114
Storm sewers (miles)	10	10	10	10	10	10	10	10	10	11
Treatment capacity (thousands of gallons)	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000

Source: Various City departments

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SINGLE AUDIT 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 City Council
City of Stephenville, Texas
Stephenville, 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 Stephenville, Texas, (the “City”) as of and for the year ended September 30, 2008, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 31, 2008. 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

In planning and performing our audit, we considered the City’s 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.

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

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

December 31, 2008



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

The Honorable Mayor and
Members of the City Council
City of Stephenville, Texas

Compliance

We have audited the compliance of the City of Stephenville, Texas, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2008. The City of Stephenville, Texas' major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Stephenville, Texas' management. Our responsibility is to express an opinion on the City of Stephenville, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Stephenville, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Stephenville, Texas' compliance with those requirements.

In our opinion, the City of Stephenville, Texas complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, 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.

December 31, 2008

CITY OF STEPHENVILLE, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Transportation</u>			
Passed through the Texas Department of Transportation:			
Airport Improvement Project - Hanger Number 2	20.106	0502STVLE	\$ 157,632
Airport Terminal Project - 2006	20.106	06TBSTVLE	421,558
Airport Pavement Rehab - 2006	20.106	0602STVLE	6,574
Airport Pavement Rehab - 2007	20.106	0702STVLE	8,911
Airport Terminal Project-2008	20.106	08TBSTVLE	<u>20,147</u>
Total Passed through Texas Department of Transportation			<u>614,822</u>
Total U. S. Department of Transportation			<u>614,822</u>
<u>Federal Emergency Management Agency</u>			
Hurricane Ike	97.039	N/A	1,495
Hurricane Ike	97.039	N/A	<u>8,569</u>
Total Federal Emergency Management Agency			<u>10,064</u>
Total Expenditures of Federal Awards			<u>\$ 624,886</u>

CITY OF STEPHENVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR YEAR ENDED SEPTEMBER 30, 2008

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards programs of the City. The City's reporting entity is defined in Note 1 of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements.

CITY OF STEPHENVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Summary of Auditors' Results

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major program	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133 disclosed	None
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The City was not classified as a low-risk auditee in the context of OMB Circular A-133.
Major federal program	Airport Improvement Program, CFDA #20.106

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

CITY OF STEPHENVILLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEAR ENDED SEPTEMBER 30, 2008

None