



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2006**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF STEPHENVILLE, TEXAS**

CITY OF STEPHENVILLE, TEXAS
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INTRODUCTORY SECTION

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November 22, 2006

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

The City of Stephenville (the “City”) Financial Management Policies requires that the City’s Finance Department prepare a complete set of financial statements presented in conformity with 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, 2006, 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’s 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, 2006, 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, 2006, are fairly presented in conformity with GAAP. The independent auditors’ 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 10.26 square miles and serves a population of about 16,882. 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.

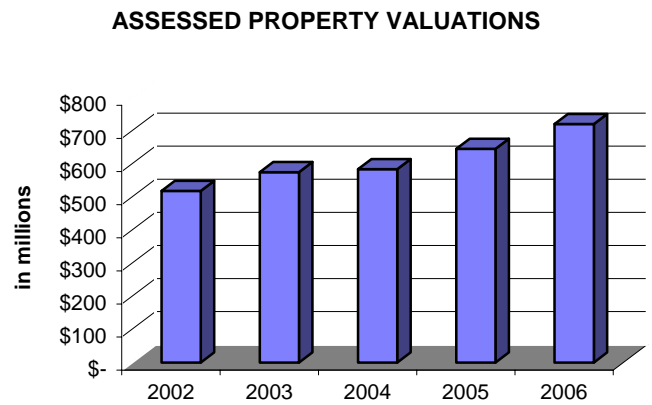
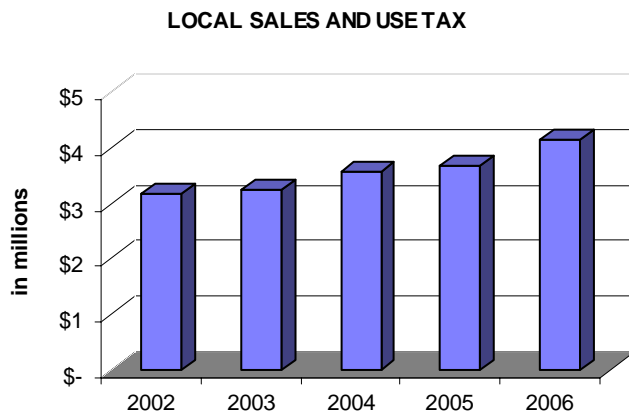
Local Economy. The City currently enjoys a favorable economic environment, bolstered by the strength of both Cross Timbers area and the State of Texas. Stephenville continues to act as a retail hub of the area. While many cities in the state are seeing the effect of a downturn in their economy, Stephenville has maintained its strong 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 about \$75,600,000 (11.7%) in 2006 to \$719,600,000. 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 \$.4750 was a reduction from the past three (3) years.

Sales tax collections continue to experience growth this year showing a 10.4% 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 2006 –2007 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, 2006, the average rate on the operating account balances was 4.36 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 4.68 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.

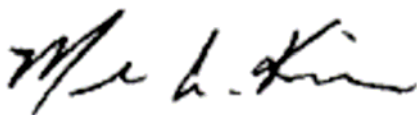
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Stephenville for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2005.

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 23rd 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

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, 2005

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.

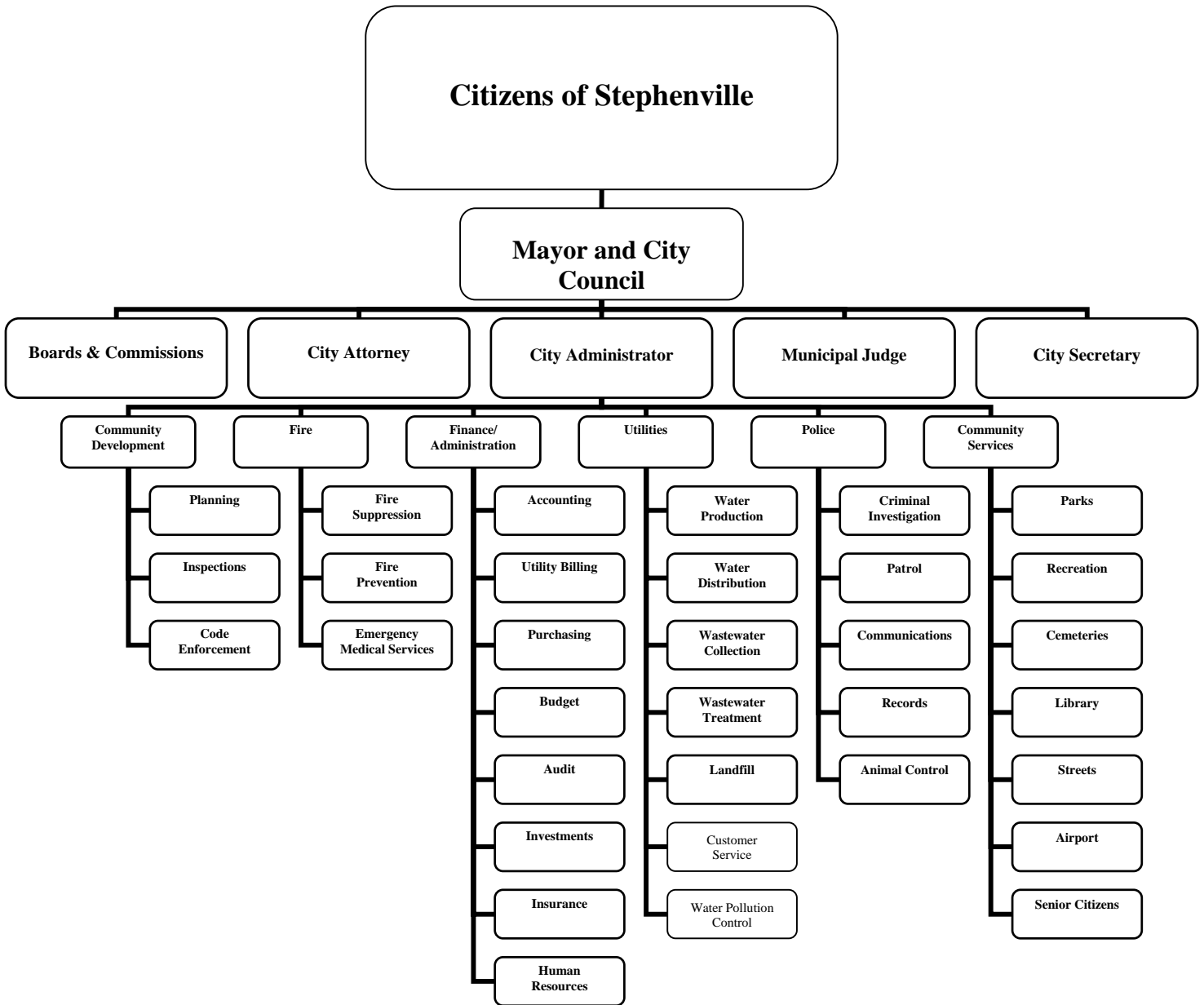


President

Executive Director

CITY OF STEPHENVILLE, TEXAS

ORGANIZATION CHART



CITY OF STEPHENVILLE, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2006

Mayor	Russell E. Jergins
Council Members	Dr. Malcolm L. Cross
	Barry Ratliff
	Alan Nash
	Cyndi Godwin
	Todd McEvoy
	Andrew Johnson
	Mark Murphy
	Nancy Hunter
City Administrator	Mark A. Kaiser
Director of Finance/Administration	Vacant
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, 2006, 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, 2006, 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 November 16, 2006, 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.

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

November 16, 2006

**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, 2006. 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, 2006, by \$44,903,420 (net assets). Of this amount, \$16,754,490 (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 \$3,980,788.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,495,224. Approximately 99 percent of this total amount, \$10,415,429, is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2006, unreserved fund balance for the General Fund was \$9,045,429 or 99 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 \$44,903,420 as of September 30, 2006.

A large portion of the City's net assets (62 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 \$1,905,603 mainly due to the acquisition and depreciation of capital assets. 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 11,972,955	\$ 10,336,824	\$ 15,013,354	\$ 13,403,902	\$ 26,986,309	\$ 23,740,726
Capital assets	11,329,777	11,095,652	30,743,407	28,824,738	42,073,184	39,920,390
Total assets	<u>23,302,732</u>	<u>21,432,476</u>	<u>45,756,761</u>	<u>42,228,640</u>	<u>69,059,493</u>	<u>63,661,116</u>
Liabilities	1,168,536	311,136	894,068	907,493	2,062,604	1,218,629
Noncurrent liabilities	1,779,910	2,205,990	20,313,559	19,313,865	22,093,469	21,519,855
Total liabilities	<u>2,948,446</u>	<u>2,517,126</u>	<u>21,207,627</u>	<u>20,221,358</u>	<u>24,156,073</u>	<u>22,738,484</u>
Net assets:						
Invested in capital assets, net of related debt	9,734,777	9,070,652	17,432,394	16,190,916	27,167,171	25,261,568
Restricted	381,849	295,721	599,910	514,842	981,759	810,563
Unrestricted	<u>10,237,660</u>	<u>9,548,977</u>	<u>6,516,830</u>	<u>5,301,524</u>	<u>16,754,490</u>	<u>14,850,501</u>
Total net assets	<u>\$ 20,354,286</u>	<u>\$ 18,915,350</u>	<u>\$ 24,549,134</u>	<u>\$ 22,007,282</u>	<u>\$ 44,903,420</u>	<u>\$ 40,922,632</u>

An additional portion of the City's assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$981,759, may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2006, 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 \$3,980,788.

Governmental Activities. Governmental activities increased the City's net assets by \$1,438,936 or 8 percent of the total growth in net assets. The net assets invested in capital assets, net of related debt increased by \$664,125 or 7 percent due to pay down of annual debt service. Unrestricted net assets increased by \$688,683 or 7 percent.

Total revenues for governmental activities increased from the previous year by \$761,239. General revenue had a net increase of \$961,398 or 11 percent.

Business-type Activities. Net Assets from business-type activities increased by \$2,541,852 or 12 percent from \$22,007,282 to \$24,549,134 accounting for the other 59 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, 2006, with comparative totals for the year ended September 30, 2005.

CITY OF STEPHENVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,107,841	\$ 976,894	\$ 6,327,315	\$ 5,945,434	\$ 7,435,156	\$ 6,922,328
Operating grants	172,884	125,068	-	-	172,884	125,068
Capital grants and contributions	177,503	556,425	599,393	1,513,020	776,896	2,069,445
General revenues:						
Property taxes	3,094,252	2,896,273	-	-	3,094,252	2,896,273
Sales taxes	4,101,973	3,654,232	-	-	4,101,973	3,654,232
Franchise taxes	1,423,615	1,264,298	-	-	1,423,615	1,264,298
Other taxes	312,528	292,447	-	-	312,528	292,447
Investment earnings	441,986	286,301	518,164	305,559	960,150	591,860
Miscellaneous	34,663	54,068	32,037	-	66,700	54,068
Total revenues	10,867,245	10,106,006	7,476,909	7,764,013	18,344,154	17,870,019
Expenses:						
General government	1,441,939	1,453,986	-	-	1,441,939	1,453,986
Public safety	4,689,443	4,345,846	-	-	4,689,443	4,345,846
Streets	1,098,979	979,051	-	-	1,098,979	979,051
Culture and recreation	1,646,017	1,582,864	-	-	1,646,017	1,582,864
Community development	343,135	348,177	-	-	343,135	348,177
Interest on long-term debt	91,817	109,153	-	-	-	109,153
Water and wastewater	-	-	4,681,174	4,367,671	4,681,174	4,367,671
Storm water drainage	-	-	18,075	8,633	18,075	8,633
Sanitary landfill	-	-	232,955	166,346	232,955	166,346
Airport	-	-	119,832	99,078	119,832	99,078
Total expenses	9,311,330	8,819,077	5,052,036	4,641,728	14,363,366	13,460,805
Increases in net assets before transfers	1,555,915	1,286,929	2,424,873	3,122,285	3,980,788	4,409,214
Transfers	(116,979)	(50,000)	116,979	50,000	-	-
Change in net assets	1,438,936	1,236,929	2,541,852	3,172,285	3,980,788	4,409,214
Net assets - beginning	18,915,350	17,678,421	22,007,282	18,834,997	40,922,632	36,513,418
Net assets - ending	\$ 20,354,286	\$ 18,915,350	\$ 24,549,134	\$ 22,007,282	\$ 44,903,420	\$ 40,922,632

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 \$10,495,224. Approximately 99 percent of this total amount, \$10,415,429, 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 \$655,634 but due to actual revenues being more than budgeted and actual expenditures being less than budgeted, the fund balance actually increased by \$681,016 during the current fiscal year. This was mainly due to higher than projected sales tax collections. Sales tax collections increased by 12.3% from the previous year and the City collected \$501,973 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 \$54,797; 2) franchise fees were \$167,745; 3) licenses and permit fees were \$77,989 more than budgeted; and 4) interest revenue was also higher due to rising interest rate by \$150,652 higher than budgeted. Expenditures were lower than budgeted mainly because street department costs were \$55,589 lower, fire department costs were \$26,427 lower, park maintenance costs were \$96,718 lower, and community development costs were \$95,705 lower than budgeted.

The fund balance of the City's General Fund increased by \$681,016 during the current fiscal year.

The Capital Projects Fund has a fund balance of \$1,051,972, a decrease of \$11,058, all of which is restricted for specific construction projects.

The Debt Service Fund has a fund balance of \$69,443, an increase of \$18,880, all of which is reserved for the repayment of debt.

The Special Revenue Fund has a fund balance of \$318,028, an increase of \$70,284, 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 \$6,516,830. The increase in net assets was \$2,587,508. 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 \$277,000. The most significant changes were for \$105,000 to fund utility cost increases, \$28,000 for fuel cost increases, and \$56,000 for public safety communication equipment. 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 \$9,011,050 compared to the final budget expenditures of \$9,144,296. The \$133,246 variance was primarily due to close monitoring of expenditures by departments and performing better than anticipated. Actual revenues on a budgetary basis was \$9,809,045 compared to the final budget of \$8,625,672. The \$1,183,373 variance was due primarily to increases in sales tax revenue and interest earnings.

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006, amounts to \$27,167,171 (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:

- Purchase of landfill dozer for \$320,350;
- Park improvements for \$79,124;
- Continuation of street improvement program for \$289,234;
- Rights-of-way acquisitions for the Ollie/Mary Streets expansion at \$173,361;
- Water and sewer line replacement programs for \$84,001;
- Acquired vehicles and other equipment for public safety for \$179,103;
- Airport commercial hangar and improvements for \$670,562; and
- Sewer service to recently annexed area for \$1,306,991.

CITY OF STEPHENVILLE’S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,005,270	\$ 1,831,885	\$ 798,082	\$ 799,177	\$ 2,803,352	\$ 2,631,062
Buildings and improvements	2,377,828	2,445,947	4,335,975	3,804,368	6,713,803	6,250,315
Equipment	1,341,267	1,206,033	678,266	416,506	2,019,533	1,622,539
Infrastructure	5,605,412	5,611,787	22,856,835	23,454,853	28,462,247	29,066,640
Construction in progress	-	-	2,074,249	349,834	2,074,249	349,834
Total capital assets	\$ 11,329,777	\$ 11,095,652	\$ 30,743,407	\$ 28,824,738	\$ 42,073,184	\$ 39,920,390

Additional information on the City's capital assets can be found on page 37 – 38 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$21,400,233. Of this amount, \$1,595,000 represents bonded debt backed by the full faith and credit of the City, \$19,575,000 represents utility revenue bonds secured by water and sewer revenues and \$230,233 represents revenue bonds secured by airport revenues.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
General obligation	\$ 645,000	\$ 945,000	\$ -	\$ -	\$ 645,000	\$ 945,000
Certificates of obligations	950,000	1,080,000	-	-	950,000	1,080,000
Revenue bonds payable	-	-	19,805,233	19,160,233	19,805,233	19,160,233
	\$ 1,595,000	\$ 2,025,000	\$ 19,805,233	\$ 19,160,233	\$ 21,400,233	\$ 21,185,233

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 39 – 42 this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2006-07 budget, General Fund revenues and transfers are budgeted to increase by 2.9% from the 2005-06 final budget with ad valorem taxes making up 31% and sales tax collections making up 39.6% of the General Fund revenues. Certified assessed property valuations increased by 11.75% over the preceding year. Factors that were considered in preparing the City's budget for the 2007 fiscal year were increases in personnel costs by about 3%, utilities by about 38%, and fuel cost by about 24%.

During the current fiscal year, unreserved fund balance in the General Fund increased to \$9,045,429. The City uses reserves from the General Fund to supplement capital projects (e.g. street paving, code enforcement demolition costs, park improvements, rights-of-way acquisitions, capital replacement) during the year as the needs arise and where favorable unit pricing is received on such projects. Additionally, the City's Financial 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. There are ample funds for transfers during 2007, should the City Council so desire, and still retain the minimum fund balance provisions established by the Financial 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 Mark A. Kaiser, City Administrator, 298 West Washington, Stephenville, Texas 76401-4257 or call (254) 918-1225.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and investments	\$ 18,937,153	\$ 4,611,765	\$ 23,548,918
Receivables (net of allowances for uncollectibles)			
Taxes	890,963	-	890,963
Accounts	320,029	1,074,662	1,394,691
Other	97,774	-	97,774
Internal balances	(8,283,316)	8,283,316	-
Inventories	10,352	-	10,352
Restricted investments	-	816,481	816,481
Deferred charges	-	227,130	227,130
Capital assets			
Land	2,005,270	798,082	2,803,352
Buildings and improvements	3,191,028	5,291,763	8,482,791
Machinery and equipment	4,568,804	1,808,376	6,377,180
Infrastructure/water and wastewater distribution	9,757,217	38,356,199	48,113,416
Construction in progress	-	2,074,249	2,074,249
Less: accumulated depreciation	<u>(8,192,542)</u>	<u>(17,585,262)</u>	<u>(25,777,804)</u>
Total capital assets	<u>11,329,777</u>	<u>30,743,407</u>	<u>42,073,184</u>
Total assets	<u>23,302,732</u>	<u>45,756,761</u>	<u>69,059,493</u>
LIABILITIES			
Accounts payable	986,727	488,847	1,475,574
Accrued liabilities	169,870	20,721	190,591
Accrued interest payable	12,606	221,988	234,594
Customer deposits	-	162,512	162,512
Noncurrent liabilities:			
Due within one year	491,982	1,140,952	1,632,934
Due in more than one year	<u>1,287,928</u>	<u>19,172,607</u>	<u>20,460,535</u>
Total liabilities	<u>2,949,113</u>	<u>21,207,627</u>	<u>24,156,740</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,734,777	17,432,394	27,167,171
Restricted for:			
Hotel/motel economic development	252,754	-	252,754
Child and public safety	65,274	-	65,274
Debt service	63,821	599,910	663,731
Unrestricted	<u>10,237,660</u>	<u>6,516,830</u>	<u>16,754,490</u>
 Total net assets	 <u>\$ 20,354,286</u>	 <u>\$ 24,549,134</u>	 <u>\$ 44,903,420</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, 2006

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	\$ 1,441,939	\$ 177,636	\$ 17,438	\$ -	\$(1,246,865)	\$ -	\$(1,246,865)
Public safety	4,689,443	600,332	124,112	-	(3,964,999)	-	(3,964,999)
Streets	1,098,979	17,444	-	110,719	(970,816)	-	(970,816)
Culture and recreation	1,646,017	132,125	31,334	66,784	(1,415,774)	-	(1,415,774)
Community development	343,135	180,304	-	-	(162,831)	-	(162,831)
Interest on long-term debt	91,817	-	-	-	(91,817)	-	(91,817)
Total governmental activities	<u>9,311,330</u>	<u>1,107,841</u>	<u>172,884</u>	<u>177,503</u>	<u>(7,853,102)</u>	<u>-</u>	<u>(7,853,102)</u>
Business-type activities							
Water and wastewater	4,681,174	5,628,658	-	79,691	-	1,027,175	1,027,175
Sanitary landfill	232,955	162,306	-	-	-	(70,649)	(70,649)
Airport	119,832	51,037	-	519,702	-	450,907	450,907
Storm water drainage	18,075	485,314	-	-	-	467,239	467,239
Total business-type activities	<u>5,052,036</u>	<u>6,327,315</u>	<u>-</u>	<u>599,393</u>	<u>-</u>	<u>1,874,672</u>	<u>1,874,672</u>
Total	<u>\$ 14,363,366</u>	<u>\$ 7,435,156</u>	<u>\$ 172,884</u>	<u>\$ 776,896</u>	<u>(7,853,102)</u>	<u>1,874,672</u>	<u>(5,978,430)</u>
General revenues:							
Taxes:							
Property - general purpose							
					2,657,106	-	2,657,106
Property - debt service							
					437,146	-	437,146
Sales							
					4,101,973	-	4,101,973
Franchise							
					1,423,615	-	1,423,615
Other							
					312,528	-	312,528
Investment earnings							
					441,986	518,164	960,150
Miscellaneous							
					34,663	32,037	66,700
Transfers							
					(116,979)	116,979	-
Total general revenues and transfers							
					<u>9,292,038</u>	<u>667,180</u>	<u>9,959,218</u>
Change in net asset:							
					1,438,936	2,541,852	3,980,788
Net assets, beginning							
					<u>18,915,350</u>	<u>22,007,282</u>	<u>40,922,632</u>
Net assets, ending							
					<u>\$ 20,354,286</u>	<u>\$ 24,549,134</u>	<u>\$ 44,903,420</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, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 8,389,604	\$ 10,156,611	\$ 390,938	\$ 18,937,153
Receivables (net of allowance for uncollectibles)				
Taxes	835,581	-	55,382	890,963
Accounts	142,459	-	-	142,459
Intergovernmental	96,438	-	1,336	97,774
Inventories	<u>10,352</u>	<u>-</u>	<u>-</u>	<u>10,352</u>
Total assets	<u>9,474,434</u>	<u>10,156,611</u>	<u>447,656</u>	<u>20,078,701</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	107,144	821,323	53,201	981,668
Accrued liabilities	169,870	-	-	169,870
Due to other funds	5,059	8,283,316	-	8,288,375
Deferred revenue	<u>137,247</u>	<u>-</u>	<u>6,984</u>	<u>144,231</u>
Total liabilities	<u>419,320</u>	<u>9,104,639</u>	<u>60,185</u>	<u>9,584,144</u>
Fund balances:				
Reserved for:				
Inventories	10,352	-	-	10,352
Debt service	-	-	69,443	69,443
Unreserved, reported in:				
General fund	9,045,429	-	-	9,045,429
Special revenue funds	-	-	318,028	318,028
Capital projects fund	<u>-</u>	<u>1,051,972</u>	<u>-</u>	<u>1,051,972</u>
Total fund balances	<u>9,055,781</u>	<u>1,051,972</u>	<u>387,471</u>	<u>10,495,224</u>
Total liabilities and fund balances	<u>\$ 9,475,101</u>	<u>\$ 10,156,611</u>	<u>\$ 447,656</u>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				11,329,777
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				321,801
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				<u>(1,792,516)</u>
Net assets of governmental activities				<u>\$ 20,354,286</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, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 2,663,936	\$ -	\$ 440,183	\$ 3,104,119
Sales	4,101,973	-	-	4,101,973
Franchise	1,423,615	-	-	1,423,615
Other	38,486	-	274,042	312,528
Special assessment	-	28,122	-	28,122
Licenses and permits	183,839	-	-	183,839
Fines and forfeitures	225,701	-	54,015	279,716
Intergovernmental	117,598	66,784	3,714	188,096
Service charges	640,935	-	-	640,935
Investment earnings	355,652	67,434	18,900	441,986
Miscellaneous	57,310	-	2,800	60,110
Total revenues	<u>9,809,045</u>	<u>162,340</u>	<u>793,654</u>	<u>10,765,039</u>
EXPENDITURES				
Current:				
General government	1,081,157	-	268,091	1,349,248
Public safety	4,553,135	-	9,082	4,562,217
Streets	699,290	-	-	699,290
Culture and recreation	1,466,261	-	-	1,466,261
Community development	337,659	-	-	337,659
Debt service:				
Principal	-	-	430,000	430,000
Interest and fiscal charges	-	-	91,817	91,817
Capital outlay	873,548	78,898	-	952,446
Total expenditures	<u>9,011,050</u>	<u>78,898</u>	<u>798,990</u>	<u>9,888,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>797,995</u>	<u>83,442</u>	<u>(5,336)</u>	<u>876,101</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	94,500	94,500
Transfers out	<u>(116,979)</u>	<u>(94,500)</u>	<u>-</u>	<u>(211,479)</u>
Total other financing sources (uses)	<u>(116,979)</u>	<u>(94,500)</u>	<u>94,500</u>	<u>(116,979)</u>
NET CHANGE IN FUND BALANCES	681,016	(11,058)	89,164	759,122
FUND BALANCES, BEGINNING	<u>8,374,765</u>	<u>1,063,030</u>	<u>298,307</u>	<u>9,736,102</u>
FUND BALANCES, ENDING	<u>\$ 9,055,781</u>	<u>\$ 1,051,972</u>	<u>\$ 387,471</u>	<u>\$ 10,495,224</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, 2006

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)	\$ 759,122
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.	40,259
The net effect of various miscellaneous transactions involving capital assets (i.e. , sales, trade-ins, and donations) is to increase net assets.	193,867
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	19,608
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	430,000
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.	(3,920)
Change in net assets of governmental activities (page 12)	<u>\$ 1,438,936</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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 6,086,750	\$ 6,186,750	\$ 6,804,395	\$ 617,645
Franchise	1,283,000	1,283,000	1,423,615	140,615
Licenses and permits	105,850	105,850	183,839	77,989
Fines and forfeitures	220,000	220,000	225,701	5,701
Intergovernmental	48,746	104,746	117,598	12,852
Service charges	640,616	640,616	640,935	319
Investment earnings	90,000	205,000	355,652	150,652
Miscellaneous	69,700	75,700	57,310	(18,390)
Total revenues	<u>8,544,662</u>	<u>8,821,662</u>	<u>9,809,045</u>	<u>987,383</u>
EXPENDITURES				
Current:				
General government:				
City council	45,092	45,092	43,163	1,929
City administrator	111,364	111,364	113,416	(2,052)
City secretary	73,323	73,323	68,773	4,550
Emergency management	6,450	6,450	5,498	952
Municipal buildings	196,986	226,986	231,018	(4,032)
Financial administration and accounting	302,275	292,275	268,426	23,849
Purchasing	51,641	51,641	52,320	(679)
Tax assessment and collection	81,100	81,100	79,805	1,295
Legal counsel	65,749	65,749	65,184	565
Municipal court	88,500	88,500	84,801	3,699
Human resources	79,741	79,741	68,753	10,988
Total general government	<u>1,102,221</u>	<u>1,122,221</u>	<u>1,081,157</u>	<u>41,064</u>
Public safety:				
Fire and ambulance administration	175,343	180,343	178,406	1,937
Fire prevention and investigation	79,777	79,777	79,686	91
Fire suppression	809,211	817,711	807,717	9,994
Emergency medical services	786,450	791,450	786,152	5,298
Volunteer	31,872	31,872	28,020	3,852

(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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
EXPENDITURES (Continued)				
Current:				
Public safety (continued):				
Police administration	\$ 104,991	\$ 104,991	\$ 111,726	\$(6,735)
Police patrol	1,365,874	1,434,874	1,386,395	48,479
Police communications	329,151	329,151	336,469	(7,318)
Police records	130,475	130,475	126,498	3,977
Criminal investigation	342,079	342,079	378,916	(36,837)
Police reserve	63,043	63,043	59,445	3,598
Animal control	104,925	104,925	103,880	1,045
Public safety facility	<u>147,235</u>	<u>169,235</u>	<u>169,825</u>	<u>(590)</u>
Total public safety	<u>4,470,426</u>	<u>4,579,926</u>	<u>4,553,135</u>	<u>26,791</u>
Streets:				
Street maintenance	<u>694,094</u>	<u>726,594</u>	<u>699,290</u>	<u>27,304</u>
Total streets	<u>694,094</u>	<u>726,594</u>	<u>699,290</u>	<u>27,304</u>
Culture and recreation:				
Recreation administration	615,509	650,509	649,744	765
Park maintenance	408,214	420,214	397,173	23,041
Cemeteries	107,886	110,886	108,505	2,381
Library	216,321	227,321	197,936	29,385
Senior citizens center	<u>110,014</u>	<u>114,014</u>	<u>112,903</u>	<u>1,111</u>
Total culture and recreation	<u>1,457,944</u>	<u>1,522,944</u>	<u>1,466,261</u>	<u>56,683</u>
Community development:				
Community development planning	165,348	210,348	132,684	77,664
Community development inspection	123,097	128,097	120,386	7,711
Code enforcement	<u>94,919</u>	<u>94,919</u>	<u>84,589</u>	<u>10,330</u>
Total community development	<u>383,364</u>	<u>433,364</u>	<u>337,659</u>	<u>95,705</u>
Total current	<u>8,108,049</u>	<u>8,385,049</u>	<u>8,137,502</u>	<u>247,547</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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
EXPENDITURES (Continued)				
Capital outlay:				
General government:				
Municipal buildings	\$ 21,500	\$ 21,500	\$ -	\$ 21,500
Financial and administration and accounting	<u>9,600</u>	<u>9,600</u>	<u>32,149</u>	<u>(22,549)</u>
Total general government	<u>31,100</u>	<u>31,100</u>	<u>32,149</u>	<u>(1,049)</u>
Public safety:				
Fire suppression	54,000	54,000	48,745	5,255
Police patrol	<u>131,000</u>	<u>131,000</u>	<u>136,018</u>	<u>(5,018)</u>
Total public safety	<u>185,000</u>	<u>185,000</u>	<u>184,763</u>	<u>237</u>
Streets:				
Street maintenance	<u>555,500</u>	<u>555,500</u>	<u>527,235</u>	<u>28,265</u>
Total highways and streets	<u>555,500</u>	<u>555,500</u>	<u>527,235</u>	<u>28,265</u>
Culture and recreation				
Park maintenance	196,500	196,500	122,823	73,677
Cemeteries	<u>8,000</u>	<u>8,000</u>	<u>6,578</u>	<u>1,422</u>
Total culture and recreation	<u>204,500</u>	<u>204,500</u>	<u>129,401</u>	<u>75,099</u>
Total capital outlay	<u>976,100</u>	<u>976,100</u>	<u>873,548</u>	<u>102,552</u>
Total expenditures	<u>9,084,149</u>	<u>9,361,149</u>	<u>9,011,050</u>	<u>350,099</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(116,147)</u>	<u>(116,147)</u>	<u>(116,979)</u>	<u>832</u>
Total other financing sources (uses)	<u>(116,147)</u>	<u>(116,147)</u>	<u>(116,979)</u>	<u>832</u>
NET CHANGE IN FUND BALANCE	<u>(655,634)</u>	<u>(655,634)</u>	<u>681,016</u>	<u>1,336,650</u>
FUND BALANCE, BEGINNING	<u>8,374,765</u>	<u>8,374,765</u>	<u>8,374,765</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 7,719,131</u>	<u>\$ 7,719,131</u>	<u>\$ 9,055,781</u>	<u>\$ 1,336,650</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, 2006

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Funds	Total
ASSETS			
Current assets:			
Cash and investments	\$ 2,626,829	\$ 1,984,936	\$ 4,611,765
Accounts receivable - net of allowances for uncollectibles	1,009,342	65,320	1,074,662
Due from other funds	8,283,316	-	8,283,316
Restricted investments	816,481	-	816,481
Total current assets	12,735,968	2,050,256	14,786,224
Noncurrent assets:			
Deferred charges	227,130	-	227,130
Capital assets:			
Land	163,721	634,361	798,082
Buildings and improvements	2,321,930	2,969,833	5,291,763
Equipment	1,095,882	712,494	1,808,376
Water and wastewater distribution	38,356,199	-	38,356,199
Construction in progress	1,585,014	489,235	2,074,249
Less: accumulated depreciation	(16,698,584)	(886,678)	(17,585,262)
Total capital assets	26,824,162	3,919,245	30,743,407
Total noncurrent assets	27,051,292	3,919,245	30,970,537
Total assets	39,787,260	5,969,501	45,756,761
LIABILITIES			
Current liabilities:			
Accounts payable	454,193	34,654	488,847
Accrued liabilities	18,676	2,045	20,721
Customer deposits	162,512	-	162,512
Accrued interest	216,571	5,417	221,988
Capital lease	-	39,265	39,265
Bonds payable	1,085,000	10,000	1,095,000
Compensated absences payable	4,978	1,709	6,687
Total current liabilities	1,941,930	93,090	2,035,020
Long-term liabilities:			
Capital lease	-	219,919	219,919
Revenue bonds payable	18,490,000	-	18,490,000
Certificate of obligation	-	220,233	220,233
Compensated absences payable	19,912	-	19,912
Liability for landfill closure	-	222,543	222,543
Total long-term liabilities	18,509,912	662,695	19,172,607
Total liabilities	20,451,842	755,785	21,207,627
NET ASSETS			
Invested in capital assets, net of related debt	13,733,382	3,699,012	17,432,394
Restricted for debt service	599,910	-	599,910
Unrestricted	5,002,126	1,514,704	6,516,830
Total net assets	\$ 19,335,418	\$ 5,213,716	\$ 24,549,134

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, 2006

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Funds	Total
OPERATING REVENUES			
Water sales	\$ 3,494,084	\$ -	\$ 3,494,084
Wastewater charges	2,018,659	-	2,018,659
Tap and collection fees	46,791	-	46,791
Delinquent charges	31,258	-	31,258
Gate charges	-	162,306	162,306
Hanger rental	-	47,121	47,121
Storm water drainage fees	-	485,314	485,314
Other service charges	37,866	3,916	41,782
Total operating revenues	5,628,658	698,657	6,327,315
OPERATING EXPENSES			
Personnel services	833,531	69,831	903,362
Contractual services	701,291	875	702,166
Utilities	609,780	22,320	632,100
Repairs and maintenance	375,893	34,305	410,198
Other supplies and expenses	411,248	48,446	459,694
Depreciation	997,354	178,498	1,175,852
Total operating expenses	3,929,097	354,275	4,283,372
OPERATING INCOME	1,699,561	344,382	2,043,943
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	444,787	73,377	518,164
Gain on sale of capital assets	-	32,037	32,037
Interest and fiscal charges on debt	(752,077)	(16,587)	(768,664)
Total nonoperating revenues (expenses)	(307,290)	88,827	(218,463)
INCOME BEFORE CONTRIBUTIONS	1,392,271	433,209	1,825,480
CAPITAL CONTRIBUTIONS	79,691	519,702	599,393
TRANSFERS IN	-	116,979	116,979
CHANGE IN NET ASSETS	1,471,962	1,069,890	2,541,852
TOTAL NET ASSETS, BEGINNING	17,863,456	4,143,826	22,007,282
TOTAL NET ASSETS, ENDING	\$ 19,335,418	\$ 5,213,716	\$ 24,549,134

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, 2006

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 5,613,175	\$ 705,159	\$ 6,318,334
Cash payments to employees for services	(829,326)	(70,318)	(899,644)
Cash payments to suppliers for goods and services	(2,237,502)	(35,635)	(2,273,137)
Cash provided by operating activities	2,546,347	599,206	3,145,553
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	-	116,979	116,979
Cash paid to other funds	(139,330)	-	(139,330)
Cash provided (used) by noncapital financing activities	(139,330)	116,979	(22,351)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	2,000,000	-	2,000,000
Principal repayments on capital lease	-	(61,166)	(61,166)
Principal repayments on bonds	(1,355,000)	(15,000)	(1,370,000)
Interest and fiscal charges on debt	(720,184)	(14,608)	(734,792)
Capital contributions	79,691	519,702	599,393
Acquisition and construction of capital assets	(1,829,337)	(936,871)	(2,766,208)
Proceeds from sale of capital assets	-	24,074	24,074
Cash used by capital and related financing activities	(1,824,830)	(483,869)	(2,308,699)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	444,787	73,377	518,164
Cash provided by investing activities	444,787	73,377	518,164
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,026,974	305,693	1,332,667
CASH AND CASH EQUIVALENTS, BEGINNING	2,416,336	1,679,243	4,095,579
CASH AND CASH EQUIVALENTS, ENDING	\$ 3,443,310	\$ 1,984,936	\$ 5,428,246
(Including \$816,481 for the Water and Wastewater fund in restricted investments)			

(continued)

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities - Enterprise Funds		
	Water and Wastewater	Other Funds	Total
RECONCILIATION OF OPERATING INCOME TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 1,699,561	\$ 344,382	\$ 2,043,943
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	997,354	178,498	1,175,852
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	(120,875)	6,425	(114,450)
Increase (decrease) in accounts payable	(139,290)	34,084	(105,206)
Increase (decrease) in accrued liabilities	973	(265)	708
Increase (decrease) in customer deposits	105,392	-	105,392
Increase (decrease) in compensated absences	3,232	(282)	2,950
Increase (decrease) in liability for landfill closure	-	36,364	36,364
Total adjustments	846,786	254,824	1,101,610
Net cash provided by operating activities	\$ 2,546,347	\$ 599,206	\$ 3,145,553
 NONCASH INVESTING, CAPITAL, AND			
FINANCING ACTIVITIES			
Borrowing under capital lease	\$ -	\$ 320,350	\$ 320,350

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

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2006

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

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

CITY OF STEPHENVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

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 fund:

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.”

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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

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.

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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-term Obligations (Continued)

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 \$1,792,516 difference are as follows:

General obligations	\$ 1,595,000
Accrued interest payable	12,606
Compensated absences	<u>184,910</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,792,516</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 \$40,259 difference are as follows:

Capital outlay	\$ 924,522
Depreciation expense	<u>(884,263)</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>\$ 40,259</u>

Another element of that reconciliation states, “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this \$193,867 difference are as follows:

In the statement of activities, only the loss of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change net assets differs from the change in fund balance by the cost of capital assets sold.	\$ 111,270
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>82,597</u>
	<u>\$ 193,867</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 \$19,608 difference are as follows:

Property taxes	\$(9,867)
Ambulance charges for services	<u>29,475</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>\$ 19,608</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this \$430,000 difference are as follows:

Principal repayments	<u>\$ 430,000</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>\$ 430,000</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 \$3,920 difference are as follows:

Compensated absences	\$(<u>3,920</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>\$(3,920)</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 that were not material 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:		
City administration	\$	2,052
Purchasing		679
Public safety:		
Police administration		6,735
Police communications		7,318
Criminal investigation		36,837
Public safety facility		590
Capital outlay:		
General government:		
Financial administration and accounting		22,549
Public safety:		
Police patrol		5,018

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 prorated 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, 2006, the City did not own any types of securities other than those permitted by statute.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

As of September 30, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 9,105,284	28
U. S. Treasuries	<u>14,049,677</u>	127
Total fair value	<u>\$ 23,154,961</u>	
Portfolio weighted average maturity (days)		88

The City's investment pool is 2a7-like pool. 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, 2006, \$1,110,028 of the City's \$1,310,028 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$200,000, was 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. The City's investment pool was rated AAAM and the U. S. Treasuries were rated AAA by Standard and Poor's Investors Service.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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	Nonmajor Funds	
Receivables:					
Accounts:					
Customers	\$ -	\$ -	\$ 1,337,628	\$ 59,083	\$ 1,396,711
Ambulance	623,429	-	-	-	623,429
Taxes:					
Property	112,075	22,478	-	-	134,553
Sales	787,960	-	-	-	787,960
Occupancy	-	46,918	-	-	46,918
Intergovernmental	96,438	1,336	-	-	97,774
Other	4,993	-	32,765	9,058	46,816
Gross receivables	1,624,895	70,732	1,370,393	68,141	3,134,161
Less: allowance for uncollectibles	(550,417)	(14,014)	(361,051)	(2,821)	(928,303)
Net total receivables	\$ 1,074,478	\$ 56,718	\$ 1,009,342	\$ 65,320	\$ 2,205,858

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:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 40,342	\$ -
Delinquent property taxes receivable (debt service)	6,984	-
Ambulance charges for services (general fund)	96,905	-
Total governmental funds	\$ 144,231	\$ -

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,831,885	\$ 173,385	\$ -	\$ 2,005,270
Total assets not being depreciated	<u>1,831,885</u>	<u>173,385</u>	<u>-</u>	<u>2,005,270</u>
Capital assets, being depreciated:				
Buildings and improvements	3,191,028	-	-	3,191,028
Machinery and equipment	4,233,138	347,331	11,665	4,568,804
Infrastructure	9,270,814	486,403	-	9,757,217
Total capital assets being depreciated	<u>16,694,980</u>	<u>833,734</u>	<u>11,665</u>	<u>17,517,049</u>
Accumulated depreciation:				
Buildings and improvements	745,081	68,119	-	813,200
Machinery and equipment	3,027,105	323,367	122,935	3,227,537
Infrastructure	3,659,027	492,778	-	4,151,805
Total accumulated depreciation	<u>7,431,213</u>	<u>884,264</u>	<u>122,935</u>	<u>8,192,542</u>
Total capital assets being depreciated, net	<u>9,263,767</u>	<u>(50,530)</u>	<u>(111,270)</u>	<u>9,324,507</u>
Governmental activities capital assets, net	<u>\$ 11,095,652</u>	<u>\$ 122,855</u>	<u>\$ (111,270)</u>	<u>\$ 11,329,777</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 799,177	\$ -	\$ 1,095	\$ 798,082
Construction in progress	349,834	1,724,415	-	2,074,249
Total assets not being depreciated	<u>1,149,011</u>	<u>1,724,415</u>	<u>1,095</u>	<u>2,872,331</u>
Capital assets, being depreciated:				
Buildings and improvements	4,621,200	670,563	-	5,291,763
Machinery and equipment	1,624,761	368,241	184,626	1,808,376
Water and wastewater system	38,052,203	303,996	-	38,356,199
Total capital assets being depreciated	<u>44,298,164</u>	<u>1,342,800</u>	<u>184,626</u>	<u>45,456,338</u>
Accumulated depreciation:				
Buildings and improvements	816,832	138,956	-	955,788
Machinery and equipment	1,208,255	134,882	213,027	1,130,110
Water and wastewater system	14,597,350	902,014	-	15,499,364
Total accumulated depreciation	<u>16,622,437</u>	<u>1,175,852</u>	<u>213,027</u>	<u>17,585,262</u>
Total capital assets being depreciated, net	<u>27,675,727</u>	<u>166,948</u>	<u>(28,401)</u>	<u>27,871,076</u>
Business-type activities capital assets, net	<u>\$ 28,824,738</u>	<u>\$ 1,891,363</u>	<u>\$ (27,306)</u>	<u>\$ 30,743,407</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

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

Governmental activities:		
General government	\$	80,149
Public safety		209,759
Culture and recreation		185,254
Community development		5,476
Streets		<u>403,626</u>
Total depreciation expense - governmental activities	\$	<u>884,264</u>
Business-type activities:		
Water and wastewater	\$	997,354
Landfill		113,070
Airport		<u>65,428</u>
Total depreciation expense - business-type activities	\$	<u>1,175,852</u>

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency	General	\$ 5,059
Water and Wastewater	Capital projects	<u>8,283,316</u>
Total		<u>\$ 8,288,375</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, 2006, are as follows:

Capital projects	Nonmajor governmental	\$ 94,500
Nonmajor enterprise	General	<u>116,979</u>
Total interfund transfers		<u>\$ 211,479</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers (Continued)

Transfers in the amount of \$94,500 are used to move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due. A transfer in the amount of \$116,979 was used to move unrestricted revenues collected in the General Fund to finance the Airport Fund in accordance with budgetary authorization.

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity from the year ended September 30, 2006, was as follows:

	Balance 09/30/05	Additions	Reductions	Balance 09/30/06	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 2,025,000	\$ -	\$ 430,000	\$ 1,595,000	\$ 455,000
Compensated absences payable	<u>180,990</u>	<u>188,506</u>	<u>184,586</u>	<u>184,910</u>	<u>36,982</u>
Total governmental activities	<u>\$ 2,205,990</u>	<u>\$ 188,506</u>	<u>\$ 614,586</u>	<u>\$ 1,779,910</u>	<u>\$ 491,982</u>
<u>Business-type activities:</u>					
Revenue bonds/certificates of obligation	\$ 19,160,233	\$ 2,000,000	\$ 1,355,000	\$ 19,805,233	\$ 1,095,000
Less deferred loss on refundings	(54,205)	-	(54,205)	-	-
Capital lease	-	320,350	61,166	259,184	39,265
Estimated landfill closure and postclosure costs	186,179	36,364	-	222,543	-
Compensated absences payable	<u>21,658</u>	<u>26,616</u>	<u>21,675</u>	<u>26,599</u>	<u>6,687</u>
Total business-type activities	<u>\$ 19,313,865</u>	<u>\$ 2,383,330</u>	<u>\$ 1,383,636</u>	<u>\$ 20,313,559</u>	<u>\$ 1,140,952</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.	\$ 950,000
\$2,700,000 General Obligation Bonds - Series 1997, principal due annually in series through 2008, interest due semi-annually at 4.43%.	<u>645,000</u>
	<u>\$ 1,595,000</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, net of deferred loss on refunding as of September 30, 2006, 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%.	\$ 5,500,000
\$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%.	745,000
\$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%.	1,420,000
\$4,975,000 Combination Tax Revenue Refunding Bonds - Series 2003, principal due annually in series through 2013, interest due semi-annually at 2.75%.	2,750,000
\$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%.	230,233
\$7,160,000 Combination Tax Revenue Bonds - Series 2004, principal due annually in series through 2019, interest due semi-annually at 4.45%.	7,160,000
\$2,000,000 Certificate of Obligation Bonds - Series 2006, principal due annually in series through 2018, interest due semi-annually at 3.77%.	<u>2,000,000</u>
Total Revenue Bonds	<u>\$ 19,805,233</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Defeasance of Bonds

In prior years, the City defeased certain certificates of obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2006, bonds considered defeased and still outstanding were in the amount of \$3,700,000.

Debt Service Requirements

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

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 455,000	\$ 70,106	\$ 525,106
2008	475,000	48,195	523,195
2009	150,000	32,845	182,845
2010	165,000	24,182	189,182
2011	170,000	14,885	184,885
2012-2016	<u>180,000</u>	<u>26,719</u>	<u>206,719</u>
Total	<u>\$ 1,595,000</u>	<u>\$ 216,932</u>	<u>\$ 1,811,932</u>

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

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,095,000	\$ 672,514	\$ 1,767,514
2008	1,271,000	732,539	2,003,539
2009	1,341,000	658,231	1,999,231
2010	1,397,000	608,657	2,005,657
2011	1,443,000	557,065	2,000,065
2012-2016	8,085,000	1,710,064	9,795,064
2017-2021	<u>5,173,233</u>	<u>214,511</u>	<u>5,387,744</u>
Total	<u>\$ 19,805,233</u>	<u>\$ 5,153,581</u>	<u>\$ 24,958,814</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.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease (Continued)

The assets acquired through capital leases are as follows:

	<u>Landfill</u>
Asset:	
Machinery and equipment	\$ 320,350
Less: accumulated depreciation	<u>(36,039)</u>
Total	<u>\$ 284,311</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, were as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>
2007	\$ 61,165
2008	61,165
2009	61,165
2010	61,165
2011	<u>87,924</u>
Total minimum lease payments	332,584
Less: amount representing interest	<u>(73,400)</u>
Present value of minimum lease payments	<u>\$ 259,184</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.

(continued)

V. OTHER INFORMATION (Continued)

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.

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 \$222,543. The landfill site has an estimated net capacity of 248,000 cubic yards and is expected to be closed within the next 10 years; approximately 54% 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 794 administered by TMRS, an agent multiple-employer public employee retirement system. All assumptions for the December 31, 2005, valuations are contained in the 2005 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 unfunded (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, 2004, valuation is effective for rates beginning January 2006).

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

Assumptions and Schedule of Actuarial Liabilities and Funding Progress

Actuarial Cost Method	Unit Credit		
Amortization Method	Level Percent of Payroll		
Remaining Amortization	25 Years - Open Period		
Asset Valuation Method	Amortized Cost (GASB-25, paragraphs 36e and 138)		
Investment Rate of Return	7%		
Projected Salary Increases	None		
Includes Inflation at	3.5%		
Cost of Living Adjustments	None		
Actuarial Valuation Date	12/31/05	12/31/04	12/31/03
Actuarial Value of Assets	\$ 11,702,174	\$ 11,127,229	\$ 9,980,272
Actuarial Accrued Liabilities	14,690,509	13,865,467	12,451,107
Percentage Funded	79.7%	80.3%	80.2%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	2,988,335	2,738,238	2,470,835
Annual Covered Payroll	4,510,148	4,334,782	4,099,356
UAAL as a Percentage of Covered Payroll	66.3%	63.2%	60.3%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	601,005	524,487	472,242
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	<u>601,005</u>	<u>524,487</u>	<u>472,242</u>
Contributions Made (100%)	601,005	524,487	472,242
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COMBINING FUND
STATEMENTS AND SCHEDULES**

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, 2006

	Special Revenue					Total
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total	Debt Service	Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 259,037	\$ 4,862	\$ 60,412	\$ 324,311	\$ 66,627	\$ 390,938
Receivables (net of allowance for uncollectibles)						
Property taxes	-	-	-	-	8,464	8,464
Intergovernmental	-	-	-	-	1,336	1,336
Occupancy taxes	<u>46,918</u>	<u>-</u>	<u>-</u>	<u>46,918</u>	<u>-</u>	<u>46,918</u>
Total assets	<u>\$ 305,955</u>	<u>\$ 4,862</u>	<u>\$ 60,412</u>	<u>\$ 371,229</u>	<u>\$ 76,427</u>	<u>\$ 447,656</u>
LIABILITIES						
Accounts payable	\$ 53,201	\$ -	\$ -	\$ 53,201	\$ -	\$ 53,201
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,984</u>	<u>6,984</u>
Total liabilities	<u>53,201</u>	<u>-</u>	<u>-</u>	<u>53,201</u>	<u>6,984</u>	<u>60,185</u>
FUND BALANCES						
Reserved for debt service	-	-	-	-	69,443	69,443
Unreserved	<u>252,754</u>	<u>4,862</u>	<u>60,412</u>	<u>318,028</u>	<u>-</u>	<u>318,028</u>
Total fund balances	<u>252,754</u>	<u>4,862</u>	<u>60,412</u>	<u>318,028</u>	<u>69,443</u>	<u>387,471</u>
Total liabilities and fund balances	<u>\$ 305,955</u>	<u>\$ 4,862</u>	<u>\$ 60,412</u>	<u>\$ 371,229</u>	<u>\$ 76,427</u>	<u>\$ 447,656</u>

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CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue				Debt Service	Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total		
REVENUES						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ 440,183	\$ 440,183
Other	274,042	-	-	274,042	-	274,042
Fines and forfeitures	-	2,869	51,146	54,015	-	54,015
Intergovernmental	-	-	3,714	3,714	-	3,714
Investment earnings	12,886	-	-	12,886	6,014	18,900
Miscellaneous	-	-	2,800	2,800	-	2,800
Total revenues	<u>286,928</u>	<u>2,869</u>	<u>57,660</u>	<u>347,457</u>	<u>446,197</u>	<u>793,654</u>
EXPENDITURES						
Current:						
General government	268,091	-	-	268,091	-	268,091
Public safety	-	2,225	6,857	9,082	-	9,082
Debt service:						
Principal	-	-	-	-	430,000	430,000
Interest and fiscal charges	-	-	-	-	91,817	91,817
Total expenditures	<u>268,091</u>	<u>2,225</u>	<u>6,857</u>	<u>277,173</u>	<u>521,817</u>	<u>798,990</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,837</u>	<u>644</u>	<u>50,803</u>	<u>70,284</u>	<u>(75,620)</u>	<u>(5,336)</u>
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	94,500	94,500
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,500</u>	<u>94,500</u>
NET CHANGE IN FUND BALANCES	18,837	644	50,803	70,284	18,880	89,164
FUND BALANCES, BEGINNING	<u>233,917</u>	<u>4,218</u>	<u>9,609</u>	<u>247,744</u>	<u>50,563</u>	<u>298,307</u>
FUND BALANCES, ENDING	<u>\$ 252,754</u>	<u>\$ 4,862</u>	<u>\$ 60,412</u>	<u>\$ 318,028</u>	<u>\$ 69,443</u>	<u>\$ 387,471</u>

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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, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - other	\$ 220,000	\$ 274,042	\$ 54,042
Interest	<u>4,000</u>	<u>12,886</u>	<u>8,886</u>
Total revenues	<u>224,000</u>	<u>286,928</u>	<u>62,928</u>
EXPENDITURES			
Current:			
General government:			
Administrative	<u>269,900</u>	<u>268,091</u>	<u>1,809</u>
Total general government	<u>269,900</u>	<u>268,091</u>	<u>1,809</u>
Total expenditures	<u>269,900</u>	<u>268,091</u>	<u>1,809</u>
NET CHANGE IN FUND BALANCE	(45,900)	18,837	64,737
FUND BALANCE, BEGINNING	<u>233,917</u>	<u>233,917</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 188,017</u>	<u>\$ 252,754</u>	<u>\$ 64,737</u>

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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, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ 2,500	\$ 2,869	\$ 369
Total revenues	<u>2,500</u>	<u>2,869</u>	<u>369</u>
EXPENDITURES			
Current:			
Public safety	<u>2,500</u>	<u>2,225</u>	<u>275</u>
Total public safety	<u>2,500</u>	<u>2,225</u>	<u>275</u>
Total expenditures	<u>2,500</u>	<u>2,225</u>	<u>275</u>
NET CHANGE IN FUND BALANCE	-	644	644
FUND BALANCE, BEGINNING	<u>4,218</u>	<u>4,218</u>	-
FUND BALANCE, ENDING	<u>\$ 4,218</u>	<u>\$ 4,862</u>	<u>\$ 644</u>

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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, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ -	\$ 51,146	\$ 51,146
Intergovernmental	3,700	3,714	14
Miscellaneous	<u>-</u>	<u>2,800</u>	<u>2,800</u>
Total revenues	<u>3,700</u>	<u>57,660</u>	<u>53,960</u>
EXPENDITURES			
Current:			
Public safety	<u>3,700</u>	<u>6,857</u>	<u>(3,157)</u>
Total public safety	<u>3,700</u>	<u>6,857</u>	<u>(3,157)</u>
Total expenditures	<u>3,700</u>	<u>6,857</u>	<u>(3,157)</u>
NET CHANGE IN FUND BALANCE	-	50,803	50,803
FUND BALANCE, BEGINNING	<u>9,609</u>	<u>9,609</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 9,609</u>	<u>\$ 60,412</u>	<u>\$ 50,803</u>

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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, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - property	\$ 425,500	\$ 440,183	\$ 14,683
Investment earnings	<u>2,000</u>	<u>6,014</u>	<u>4,014</u>
Total revenues	<u>427,500</u>	<u>446,197</u>	<u>18,697</u>
EXPENDITURES			
Debt service:			
Principal	430,000	430,000	-
Interest and fiscal charges	<u>91,000</u>	<u>91,817</u>	<u>(817)</u>
Total general government	<u>521,000</u>	<u>521,817</u>	<u>(817)</u>
Total expenditures	<u>521,000</u>	<u>521,817</u>	<u>(817)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(93,500)</u>	<u>(75,620)</u>	<u>17,880</u>
OTHER FINANCING SOURCES			
Transfers in	<u>94,500</u>	<u>94,500</u>	<u>-</u>
Total other financing sources	<u>94,500</u>	<u>94,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,000	18,880	17,880
FUND BALANCE, BEGINNING	<u>59,841</u>	<u>50,563</u>	<u>(9,278)</u>
FUND BALANCE, ENDING	<u>\$ 60,841</u>	<u>\$ 69,443</u>	<u>\$ 8,602</u>

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.

Storm Water Drainage – This fund is used to account for revenues collected and project costs for mitigating storm water drainage problems throughout the City.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2006

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Storm Water Drainage</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and investments	\$ 479,063	\$ -	\$ 1,505,873	\$ 1,984,936
Accounts receivable (net of allowances for uncollectibles)	<u>4,588</u>	<u>4,470</u>	<u>56,262</u>	<u>65,320</u>
Total current assets	<u>483,651</u>	<u>4,470</u>	<u>1,562,135</u>	<u>2,050,256</u>
Noncurrent assets:				
Capital assets:				
Land	40,000	594,361	-	634,361
Buildings and improvements	375,109	2,594,724	-	2,969,833
Equipment	597,363	115,131	-	712,494
Construction in progress	-	-	489,235	489,235
Less: accumulated depreciation	<u>(530,296)</u>	<u>(356,382)</u>	<u>-</u>	<u>(886,678)</u>
Total noncurrent assets	<u>482,176</u>	<u>2,947,834</u>	<u>489,235</u>	<u>3,919,245</u>
Total assets	<u>965,827</u>	<u>2,952,304</u>	<u>2,051,370</u>	<u>5,969,501</u>
LIABILITIES				
Current liabilities:				
Accounts payable	574	4,696	29,384	34,654
Accrued liabilities	2,045	-	-	2,045
Accrued interest payable	-	5,417	-	5,417
Capital lease	39,265	-	-	39,265
Certificate of obligations	-	10,000	-	10,000
Compensated absences payable	<u>1,709</u>	<u>-</u>	<u>-</u>	<u>1,709</u>
Total current liabilities	<u>43,593</u>	<u>20,113</u>	<u>29,384</u>	<u>93,090</u>
Long-term liabilities:				
Capital lease	219,919	-	-	219,919
Certificate of obligations	-	220,233	-	220,233
Liability for landfill closure	<u>222,543</u>	<u>-</u>	<u>-</u>	<u>222,543</u>
Total long-term liabilities	<u>442,462</u>	<u>220,233</u>	<u>-</u>	<u>662,695</u>
Total liabilities	<u>486,055</u>	<u>240,346</u>	<u>29,384</u>	<u>755,785</u>
NET ASSETS				
Invested in capital assets, net of related debt	482,176	2,727,601	489,235	3,699,012
Unrestricted	<u>(2,404)</u>	<u>(15,643)</u>	<u>1,532,751</u>	<u>1,514,704</u>
Total net assets	<u>\$ 479,772</u>	<u>\$ 2,711,958</u>	<u>\$ 2,021,986</u>	<u>\$ 5,213,716</u>

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CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Storm Water Drainage</u>	<u>Total</u>
OPERATING REVENUES				
Gate charges	\$ 162,306	\$ -	\$ -	\$ 162,306
Hanger rental	-	47,121	-	47,121
Storm water drainage fee	-	-	485,314	485,314
Other service charges	<u>-</u>	<u>3,916</u>	<u>-</u>	<u>3,916</u>
Total operating revenues	<u>162,306</u>	<u>51,037</u>	<u>485,314</u>	<u>698,657</u>
OPERATING EXPENSES				
Personnel services	69,831	-	-	69,831
Contractual services	875	-	-	875
Utilities	1,099	21,221	-	22,320
Repairs and maintenance	6,756	9,474	18,075	34,305
Other supplies and expenses	41,324	7,122	-	48,446
Depreciation	<u>113,070</u>	<u>65,428</u>	<u>-</u>	<u>178,498</u>
Total operating expenses	<u>232,955</u>	<u>103,245</u>	<u>18,075</u>	<u>354,275</u>
OPERATING INCOME (LOSS)	(70,649)	(52,208)	467,239	344,382
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	20,262	2,985	50,130	73,377
Gain on sale of capital assets	32,037	-	-	32,037
Interest expense	<u>-</u>	<u>(16,587)</u>	<u>-</u>	<u>(16,587)</u>
Total nonoperating revenues (expenses)	<u>52,299</u>	<u>(13,602)</u>	<u>50,130</u>	<u>88,827</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(18,350)	(65,810)	517,369	433,209
CAPITAL CONTRIBUTIONS	-	519,702	-	519,702
TRANSFER IN	<u>-</u>	<u>116,979</u>	<u>-</u>	<u>116,979</u>
CHANGE IN NET ASSETS	(18,350)	570,871	517,369	1,069,890
TOTAL NET ASSETS, BEGINNING	<u>498,122</u>	<u>2,141,087</u>	<u>1,504,617</u>	<u>4,143,826</u>
TOTAL NET ASSETS, ENDING	<u>\$ 479,772</u>	<u>\$ 2,711,958</u>	<u>\$ 2,021,986</u>	<u>\$ 5,213,716</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Storm Water Drainage</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 173,233	\$ 47,400	\$ 484,526	\$ 705,159
Cash payments to employees	(70,318)	-	-	(70,318)
Cash payments to suppliers for goods and services	<u>(13,305)</u>	<u>(33,639)</u>	<u>11,309</u>	<u>(35,635)</u>
Cash provided by operating activities	<u>89,610</u>	<u>13,761</u>	<u>495,835</u>	<u>599,206</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	<u>-</u>	<u>116,979</u>	<u>-</u>	<u>116,979</u>
Cash provided by noncapital financing activities	<u>-</u>	<u>116,979</u>	<u>-</u>	<u>116,979</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on capital lease	(61,166)	-	-	(61,166)
Principal payments on bonds	-	(15,000)	-	(15,000)
Interest and fiscal charges on debt	-	(14,608)	-	(14,608)
Capital contributions	-	519,702	-	519,702
Acquisition and construction of capital assets	(20,438)	(670,563)	(245,870)	(936,871)
Proceeds from sale of capital assets	<u>24,074</u>	<u>-</u>	<u>-</u>	<u>24,074</u>
Cash used by capital and related financing activities	<u>(57,530)</u>	<u>(180,469)</u>	<u>(245,870)</u>	<u>(483,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>20,262</u>	<u>2,985</u>	<u>50,130</u>	<u>73,377</u>
Cash provided by investing activities	<u>20,262</u>	<u>2,985</u>	<u>50,130</u>	<u>73,377</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	52,342	(46,744)	300,095	305,693
CASH AND CASH EQUIVALENTS, BEGINNING	<u>426,721</u>	<u>46,744</u>	<u>1,205,778</u>	<u>1,679,243</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 479,063</u>	<u>\$ -</u>	<u>\$ 1,505,873</u>	<u>\$ 1,984,936</u>

(continued)

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Storm Water Drainage</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS)				
TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$(70,649)	\$(52,208)	\$ 467,239	\$ 344,382
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	113,070	65,428	-	178,498
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	10,850	(3,637)	(788)	6,425
Increase (decrease) in accounts payable	462	4,238	29,384	34,084
Increase (decrease) in accrued liabilities	(205)	(60)	-	(265)
Increase (decrease) in compensated absences	(282)	-	-	(282)
Increase (decrease) in liability for landfill closure	<u>36,364</u>	<u>-</u>	<u>-</u>	<u>36,364</u>
Total adjustments	<u>160,259</u>	<u>65,969</u>	<u>28,596</u>	<u>254,824</u>
Net cash provided by operating activities	<u>\$ 89,610</u>	<u>\$ 13,761</u>	<u>\$ 495,835</u>	<u>\$ 599,206</u>
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Borrowing under capital lease	<u>\$ 320,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,350</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, 2006

	<u>Balance</u> October 1, 2005	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> September 30, 2006
<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

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CITY OF STEPHENVILLE, TEXAS

NET ASSETS BY COMPONENT

LAST FOUR FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities:				
Invested in capital assets, net of related debt	\$ 9,734,777	\$ 9,070,652	\$ 8,877,241	\$ 8,671,383
Restricted	381,849	295,721	620,104	-
Unrestricted	<u>10,237,660</u>	<u>9,548,977</u>	<u>8,181,076</u>	<u>7,932,439</u>
Total governmental activities net assets	<u>\$ 20,354,286</u>	<u>\$ 18,915,350</u>	<u>\$ 17,678,421</u>	<u>\$ 16,603,822</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 17,432,394	\$ 16,190,916	\$ 14,229,406	\$ 11,789,690
Restricted	599,910	514,842	470,750	508,583
Unrestricted	<u>6,516,830</u>	<u>5,301,524</u>	<u>4,134,841</u>	<u>5,621,026</u>
Total business-type activities net assets	<u>\$ 24,549,134</u>	<u>\$ 22,007,282</u>	<u>\$ 18,834,997</u>	<u>\$ 17,919,299</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 27,167,171	\$ 25,261,568	\$ 23,106,647	\$ 20,461,073
Restricted	981,759	810,563	1,090,854	508,583
Unrestricted	<u>16,754,490</u>	<u>14,850,501</u>	<u>12,315,917</u>	<u>13,553,465</u>
Total primary government net assets	<u>\$ 44,903,420</u>	<u>\$ 40,922,632</u>	<u>\$ 36,513,418</u>	<u>\$ 34,523,121</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 FOUR FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
EXPENSES				
Governmental activities:				
General government	\$ 1,441,939	\$ 1,453,986	\$ 1,421,563	\$ 1,262,164
Public safety	4,689,443	4,345,846	4,026,402	4,028,747
Streets	1,098,979	979,051	995,046	894,193
Culture and recreation	1,646,017	1,582,864	1,574,032	1,522,896
Community development	343,135	348,177	296,244	317,743
Interest on long-term debt	91,817	109,153	130,388	153,445
Total governmental activities expenses	<u>9,311,330</u>	<u>8,819,077</u>	<u>8,443,675</u>	<u>8,179,188</u>
Business-type activities:				
Water and wastewater	4,681,174	4,367,671	4,582,690	3,790,830
Storm water drainage	232,955	166,346	35,462	14,034
Sanitary landfill	119,832	99,078	151,309	211,159
Airport	18,075	8,633	101,082	99,847
Total business-type activities expenses	<u>5,052,036</u>	<u>4,641,728</u>	<u>4,870,543</u>	<u>4,115,870</u>
Total primary government program revenues	<u>\$ 14,363,366</u>	<u>\$ 13,460,805</u>	<u>\$ 13,314,218</u>	<u>\$ 12,295,058</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	\$ 177,636	\$ 172,292	\$ 195,176	\$ 21,421
Public safety	600,332	488,292	524,561	884,349
Streets	17,444	17,213	28,748	22,388
Culture and recreation	132,125	135,607	147,563	157,741
Community development	180,304	163,490	165,803	82,182
Operating grants and contributions	172,884	125,068	189,805	146,257
Capital grants and contributions	177,503	556,425	366,478	185,625
Total governmental activities program revenues	<u>1,458,228</u>	<u>1,658,387</u>	<u>1,618,134</u>	<u>1,499,963</u>
Business-type activities:				
Charges for services:				
Water and wastewater	5,628,658	5,245,901	4,564,193	4,261,555
Sanitary landfill	162,306	174,845	174,152	154,650
Airport	51,037	39,088	31,077	24,865
Storm water drainage	485,314	485,600	478,143	511,427
Capital grants and contributions	599,393	1,513,020	411,474	273,101
Total business-type activities program revenues	<u>6,926,708</u>	<u>7,458,454</u>	<u>5,659,039</u>	<u>5,225,598</u>
Total primary government program revenues	<u>\$ 8,384,936</u>	<u>\$ 9,116,841</u>	<u>\$ 7,277,173</u>	<u>\$ 6,725,561</u>

(continued)

TABLE 2

CITY OF STEPHENVILLE, TEXAS

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

	Fiscal Year			
	2006	2005	2004	2003
NET (EXPENSE) REVENUES				
Governmental activities	\$(7,853,102)	\$(7,160,690)	\$(6,825,541)	\$(6,679,225)
Business-type activities	<u>1,874,672</u>	<u>2,816,726</u>	<u>788,496</u>	<u>1,109,728</u>
Total primary government net expense	<u>(5,978,430)</u>	<u>(4,343,964)</u>	<u>(6,037,045)</u>	<u>(5,569,497)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes:				
Property - general purposes	2,657,106	2,447,610	2,249,922	1,994,728
Property - debt service	437,146	448,663	540,467	545,552
Sales	4,101,973	3,654,232	3,538,100	3,217,670
Franchise	1,423,615	1,264,298	1,209,036	934,965
Other	312,528	292,447	262,467	208,534
Investment earnings	441,986	286,301	87,990	196,542
Miscellaneous	34,663	54,068	12,158	33,971
Transfers	<u>(116,979)</u>	<u>(50,000)</u>	<u>-</u>	<u>315,638</u>
Total governmental activities	<u>9,292,038</u>	<u>8,397,619</u>	<u>7,900,140</u>	<u>7,447,600</u>
Business-type activities:				
Investment earnings	518,164	305,559	100,773	105,970
Miscellaneous	32,037	-	26,429	9,137
Transfers	<u>116,979</u>	<u>50,000</u>	<u>-</u>	<u>(315,638)</u>
Total business-type activities	<u>667,180</u>	<u>355,559</u>	<u>127,202</u>	<u>(200,531)</u>
Total primary government	<u>9,959,218</u>	<u>8,753,178</u>	<u>8,027,342</u>	<u>7,247,069</u>
CHANGE IN NET ASSETS				
Governmental activities	1,438,936	1,236,929	1,074,599	768,375
Business-type activities	<u>2,541,852</u>	<u>3,172,285</u>	<u>915,698</u>	<u>909,197</u>
Total primary government	<u>\$ 3,980,788</u>	<u>\$ 4,409,214</u>	<u>\$ 1,990,297</u>	<u>\$ 1,677,572</u>

Note:

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

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CITY OF STEPHENVILLE, TEXAS

**FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 2,162	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,178	\$ 4,072	\$ 13,349	\$ 10,352
Unreserved	<u>5,398,041</u>	<u>6,269,476</u>	<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>
Total general fund	<u>\$ 5,400,203</u>	<u>\$ 6,269,476</u>	<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>
All other governmental funds										
Reserved										
Debt service funds	\$ 3,304	\$(671)	\$ 1,077	\$ 12,873	\$ 24,139	\$ 30,337	\$ 41,081	\$ 41,285	\$ 50,563	\$ 69,443
Unreserved, reported in:										
Special revenue funds	108,775	93,695	157,561	186,653	232,461	207,743	237,911	211,765	247,743	318,028
Capital projects funds	<u>749,637</u>	<u>3,395,202</u>	<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>
Total all other governmental funds	<u>\$ 861,716</u>	<u>\$ 3,488,226</u>	<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>

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDSLAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES										
Taxes	\$ 5,375,901	\$ 5,648,855	\$ 6,158,011	\$ 6,418,350	\$ 6,689,180	\$ 7,067,904	\$ 6,891,072	\$ 7,804,900	\$ 8,103,134	\$ 8,942,235
Special assessments		-	-	664,688	-	55,415	-	-	402,789	28,122
Licenses, fees and permits	85,776	59,393	78,228	88,671	64,408	86,583	84,669	168,519	168,523	183,839
Fines and forfeitures	246,898	247,631	174,225	169,085	168,271	135,897	248,426	229,922	207,407	279,716
Intergovernmental	192,539	251,491	231,738	669,130	207,050	242,187	249,564	306,510	104,228	188,096
Service charges	596,914	494,564	349,452	367,715	408,757	523,825	545,763	697,355	651,021	640,935
Investment earnings	438,812	443,670	507,744	445,529	406,277	275,793	194,772	87,991	286,300	441,986
Miscellaneous	36,213	99,628	38,287	29,767	68,242	61,705	125,027	52,734	108,222	60,110
Total revenues	<u>6,973,053</u>	<u>7,245,232</u>	<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>
EXPENDITURES										
General government	803,012	857,836	938,789	947,835	942,036	1,091,746	1,113,323	1,274,807	1,231,709	1,349,248
Public safety	2,666,287	2,957,431	2,885,336	3,146,946	3,325,599	3,603,448	3,821,859	3,874,454	4,140,738	4,562,217
Streets	509,448	538,272	665,954	562,728	588,038	620,714	561,646	630,057	578,126	699,290
Culture and recreation	910,317	957,735	1,013,705	1,081,294	1,243,096	1,294,316	1,357,624	1,336,974	1,412,305	1,466,261
Community development	175,319	178,310	188,246	182,517	236,431	250,776	317,743	295,036	346,969	337,659
Debt service										
Principal	217,241	195,272	486,967	429,391	430,000	450,000	470,000	500,000	420,000	430,000
Interest	159,312	166,924	263,320	225,283	200,415	178,813	157,032	133,441	111,582	91,817
Capital outlay	2,058,835	707,770	2,747,738	2,184,074	1,667,368	868,370	366,753	661,419	1,014,372	952,446
Total expenditures	<u>7,499,771</u>	<u>6,559,550</u>	<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>

(continued)

CITY OF STEPHENVILLE, TEXAS

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (526,718)	\$ 685,682	\$ (1,652,370)	\$ 92,867	\$ (620,798)	\$ 91,126	\$ 173,313	\$ 641,743	\$ 775,823	\$ 876,101
OTHER FINANCING SOURCES (USES)										
Issuance of bonds	-	2,700,000	-	-	-	-	-	-	-	-
Proceeds on sale of capital assets	43,528	86,171	48,329	26,449	-	-	-	-	-	-
Payments to escrow account		252,933	-	-	-	-	-	-	-	-
Transfers in	89,424	92,664	1,168,134	800,449	448,316	251,085	423,414	90,000	90,000	94,500
Transfers out	(100,000)	(3,228)	(1,763,910)	(656,348)	(325,000)	(102,195)	(107,776)	(90,000)	(140,000)	(211,479)
Total other financing sources (uses)	32,952	3,128,540	(547,447)	170,550	123,316	148,890	315,638	-	(50,000)	(116,979)
NET CHANGE IN FUND BALANCES	\$ (493,766)	\$ 3,814,222	\$ (2,199,817)	\$ 263,417	\$ (497,482)	\$ 240,016	\$ 488,951	\$ 641,743	\$ 725,823	\$ 759,122
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>7.4%</u>	<u>6.6%</u>	<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>

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
1997	\$ 220,832,244	\$ 253,586,720	\$ 51,933,813	\$ 179,523,650	\$ 346,829,127	\$0.4393	\$ 1,523,620
1998	235,475,135	271,591,756	118,064,572	203,850,850	421,280,613	0.4333	1,825,409
1999	251,534,041	279,552,526	120,232,379	191,106,538	460,212,408	0.4724	2,174,043
2000	258,328,927	282,242,502	117,284,814	194,131,922	463,724,321	0.4724	2,190,634
2001	275,008,292	277,180,795	110,482,050	192,478,165	470,192,972	0.4724	2,221,192
2002	277,642,872	302,960,725	97,250,070	189,978,791	487,874,876	0.4800	2,341,799
2003	300,285,040	341,944,306	97,673,680	221,495,172	518,407,854	0.4850	2,514,278
2004	332,268,337	380,965,905	111,273,080	249,575,629	574,931,693	0.4850	2,788,419
2005	352,795,683	386,744,845	105,901,750	253,232,383	592,209,895	0.4850	2,872,218
2006	387,312,400	403,019,380	113,971,870	260,321,554	643,982,096	0.4750	3,058,915

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		
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Stephenville School District	Middle Trinity Water District	Erath County
1997	\$0.3643	\$0.0750	\$0.4393	\$1.2000	-	\$0.5000
1998	0.3643	0.0690	0.4333	1.2000	-	0.4785
1999	0.3377	0.1347	0.4724	1.3000	-	0.4785
2000	0.3359	0.1365	0.4724	1.4500	-	0.4785
2001	0.3552	0.1172	0.4724	1.7500	-	0.4785
2002	0.3678	0.1122	0.4800	0.1690	-	0.4785
2003	0.3812	0.1038	0.4850	1.6900	\$0.0150	0.4700
2004	0.3913	0.0937	0.4850	1.6700	0.0150	0.4512
2005	0.4107	0.0743	0.4850	1.6700	0.0150	0.4625
2006	0.4079	0.0671	0.4750	1.6600	0.0150	0.4410

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, Texas.

The Middle Trinity Water District did not exist in fiscal years 1997 through 2002.

TABLE 7

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2006		1997	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
FMC Company	\$ 20,239,816	2.81%	\$ 23,365,752	5.55%
Saint Gobain Abrasives	10,523,898	1.46%	56,203,761	13.34%
TXU Electric Delivery	8,427,920	1.17%	6,441,578	1.53%
Bosque River Associates	7,752,330	1.08%	8,536,044	2.03%
Wal-Mart Stores, Inc. #1	7,673,710	1.07%	8,530,885	2.02%
STAM Ltd	7,239,420	1.01%	-	- %
Saint Gobain Abrasives	6,789,370	0.94%	-	- %
United Telephone Company (Embarq)	6,646,910	0.92%	-	- %
Wilmington Trust (Wal-Mart #2)	6,249,360	0.87%	6,748,266	1.60%
Rayloc Genaut	4,654,381	0.65%	18,237,444	4.33%
Emerson Electric Company	-	- %	6,312,988	1.50%
FMC Technologies	-	- %	7,211,108	1.71%
Fibergrate	-	- %	7,820,717	1.86%
Subtotal	\$ 86,197,115	11.98%	\$ 149,408,543	35.47%
Remaining Roll	633,464,326	88.02%	271,872,070	64.53%
Total	\$ 719,661,441	100.00%	\$ 421,280,613	100.00%

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

TABLE 8

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

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected With the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 1,731,091	\$ 1,691,620	97.72%	\$ 22,760	\$ 1,714,380	99.03%
1998	1,824,677	1,786,443	97.90%	28,665	1,815,108	99.48%
1999	2,181,037	2,133,063	97.80%	40,029	2,173,092	99.64%
2000	2,185,007	2,143,729	98.11%	44,706	2,188,435	100.16%
2001	2,236,217	2,192,628	98.05%	32,162	2,224,790	99.49%
2002	2,348,927	2,294,810	97.70%	44,918	2,339,728	99.61%
2003	2,513,625	2,462,155	97.95%	46,558	2,508,713	99.80%
2004	2,788,419	2,726,244	97.77%	62,175	2,788,419	100.00%
2005	2,832,529	2,808,747	99.16%	52,752	2,861,499	101.02%
2006	3,066,225	3,018,008	98.43%	42,102	3,060,110	99.80%

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

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

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Participation	Term Loan	Water Revenue Bonds	Certificates of Participation	Capital Leases			
1997	\$ 570,000	\$ 1,955,000	\$ 219,228	\$ 12,575,000	\$ 375,000	\$ -	\$ 15,694,228	5.74%	\$ 1,097
1998	3,205,000	1,865,000	162,245	11,725,000	250,000	-	17,207,245	5.61%	1,179
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	- %	1,300
2006	645,000	950,000	-	5,500,000	14,305,233	259,184	21,659,417	- %	1,283

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City issued over \$2 million of new certificates of participation in 2006.

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			
1997	\$ 570,000	\$ 2,174,228	\$ 3,304	\$ 2,747,532	0.79%	\$ 192.14
1998	3,205,000	2,027,245	-	5,232,245	1.24%	358.37
1999	2,935,000	1,810,278	1,077	4,746,355	1.03%	323.98
2000	2,630,000	1,685,887	12,873	4,328,760	0.93%	294.47
2001	2,310,000	1,555,000	24,139	3,889,139	0.83%	260.65
2002	1,970,000	1,445,000	30,336	3,445,336	0.71%	229.69
2003	1,615,000	1,330,000	41,082	2,986,082	0.58%	190.62
2004	1,235,000	1,210,000	41,285	2,486,285	0.43%	156.53
2005	945,000	1,080,000	50,563	2,075,563	0.35%	127.34
2006	645,000	950,000	69,443	1,664,443	0.26%	98.59

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

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, 2006

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Stephenville Independent School District	\$ 15,490,967	68.29%	\$ 10,579,071
Erath County General Obligation Debt	-	40.00%	-
Other debt			
Middle Trinity Groundwater Conservation District	-	38.58%	<u>-</u>
Subtotal overlapping debt			10,579,071
City direct debt			<u>1,595,000</u>
Total direct and overlapping debt			<u>\$ 12,174,071</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 2006

Taxable assessed valuation	\$	643,982,096	
Constitutional tax rate limit		2.50% of assessed valuation	
Maximum constitutional revenue available	\$	16,099,552	
Tax rate to achieve maximum tax revenue		\$2.50 per \$100 of valuation	
Tax rate for FY 2005-2006		\$0.475 per \$100 of valuation	
Available unused constitutional max tax rate		\$2.025 per \$100 of valuation	
Debt applicable to limit:			
General obligation debt	\$	2,025,000	

DEBT TAX RATE ADEQUACY

2006 Principal and Interest Requirements.....	\$	520,819
\$0.0671 Tax Rate at 98% Collection Produces.....		423,470
Average Annual Principal and Interest Requirement, 2006-2016.....		212,068
\$0.0336 Tax Rate at 98% Collection Produces.....		212,050
Maximum Principal and Interest Requirements.....		525,106
\$0.0832 Tax Rate at 98% Collection Produces.....		525,077

DEBT SERVICE FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2006		\$	520,819
Debt Service Fund, 9-30-05	\$	50,563	
Special Assessment Operating Reserve Transfer In		94,500	
Debt Service Fund Tax Levy @ 98% Collection		<u>423,470</u>	<u>\$ 568,533</u>

CITY OF STEPHENVILLE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
1997	\$ 4,101,306	\$ 1,762,495	\$ 2,338,811	\$ 905,000	\$ 710,648	1.45
1998	4,422,142	1,921,867	2,500,275	995,000	668,930	1.50
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	1,340,000	752,077	1.29

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements. 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>
1997	14,300	\$ 273,244,400	\$ 19,108	3,426	6,381	3.1%
1998	14,600	306,527,000	20,995	3,327	6,333	3.1%
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	358,230,000	23,882	3,444	6,827	3.3%
2003	15,665	365,495,780	23,332	3,530	7,197	3.2%
2004	15,884	402,262,300	25,325	3,417	7,347	2.7%
2005	16,300	-	-	3,512	7,589	3.5%
2006	16,882	-	-	3,550	7,776	3.7%

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 for 2005 and 2006 is not available.

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2006	
	Employees	Percentage of Total City Employment
Tarleton State University	895	5.01%
FMC Company	630	3.53%
Saint Gobain Abrasives	575	3.22%
Stephenville Independent School District	468	2.62%
Wal-Mart Stores, Inc.	450	2.52%
Harris Methodist Erath County Hospital	255	1.43%
Emerson Electric Company	192	1.08%
Outlaw Conversions	190	1.06%
Erath County	179	1.00%
Stephenville Medical & Surgical Clinic	150	0.84%
Caporal Forging	120	0.67%
Rayloc Genaut	115	0.64%
Fibergrate Composite Structures	<u>115</u>	<u>0.64%</u>
Subtotal	4,334	24.28%
Remaining employers	<u>13,519</u>	<u>75.72%</u>
Total	<u>17,853</u>	<u>100.00%</u>

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 1997 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,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Management services	4	4	4	4	4	4	4	4	4	4
Finance	6	7	7	7	6	6	7	7	7	7
Planning	1	1	1	1	2	2	2	2	2	2
Building	1	1	1	1	1	1	1	1	1	2
Other	1	1	1	1	1	1	1	1	1	1
Police										
Officers	30	30	30	30	30	30	30	31	31	31
Civilians	9	10	10	10	10	11	11	11	13	13
Fire										
Firefighters and officers	23	23	23	23	23	26	26	26	26	27
Parks and recreation	9	9	9	9	11	11	13	13	13	13
Library	4	4	4	4	4	4	4	4	4	4
Streets	7	7	7	7	7	7	7	7	7	7
Water	9	9	8	8	9	9	9	9	9	10
Wastewater	7	7	7	7	8	8	8	8	8	8
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>113</u>	<u>115</u>	<u>114</u>	<u>114</u>	<u>118</u>	<u>122</u>	<u>125</u>	<u>126</u>	<u>128</u>	<u>131</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									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Building permits issued	322	325	238	242	265	234	222	140	172	125
Building permits value	\$7,417,724	\$13,259,095	\$10,293,611	\$14,721,989	\$5,563,166	\$12,118,416	\$10,467,400	\$21,515,373	\$18,442,334	\$12,262,542
Police										
Calls for service	a	a	a	9,138	9,114	10,207	10,203	10,483	10,358	11,234
Physical arrests	a	943	1,019	1,019	716	762	1,134	825	959	999
Parking violations	a	417	182	182	805	404	530	324	386	334
Traffic violations	a	3,666	3,178	3,178	4,501	3,164	5,094	5,350	3,588	3,066
Fire										
Ambulance responses	1,730	1,598	1,236	1,271	1,321	1,468	1,372	1,183	1,291	1,255
Fires extinguished	487	536	318	376	357	412	339	185	235	305
Inspections	186	155	150	150	149	149	135	132	109	105
Other public works										
Street resurfacing (miles)	1.75	2.06	0.32	1.30	1.88	2.35	2.39	1.35	1.14	1.52
Library										
Volumes in collection	41,623	41,711	42,214	43,065	41,905	40,161	43,331	46,938	48,548	47,510
Total volumes borrowed	205	210	82	120	130	237	110	138	155	114
Water										
New connections	5,116	5,142	5,256	5,256	5,319	5,319	5,242	5,521	5,253	5,550
Water main breaks	48	50	51	47	53	52	49	54	50	48
Average daily consumption (thousands of gallons)	2,632,000	2,340,000	2,295,000	2,482,000	2,341,000	2,158,000	2,124,000	1,971,990	2,042,000	2,254,000
Peak daily consumption (thousands of gallons)	3,820,000	4,406,000	4,589,000	4,700,000	4,549,000	4,174,000	4,133,000	3,598,000	3,499,000	4,397,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	1,969,000	1,460,000	1,253,000	1,253,000	1,387,000	1,311,000	1,354,000	1,456,000	1,334,000	1,414,000

Source: Various City departments

Note: a - Information is not available.

TABLE 18

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

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	6	6	6	9	9	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	87	87	92	92	92	92
Highways (miles)	19	19	19	19	19	19	19	19	19	19
Streetlights	929	950	952	983	992	992	1,013	1,013	1,013	1,013
Traffic signals	-	-	-	-	-	-	-	-	-	-
Parks and recreation										
Acreage	126	126	126	126	126	134	134	134	134	134
Playgrounds	3	3	3	3	3	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	58	58	112	116	117	117	120
Fire hydrants	580	580	616	616	623	623	650	670	670	680
Storage capacity (thousands of gallons)	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000
Wastewater										
Sanitary sewers (miles)	68	68	68	68	68	96	105	105	110	110
Storm sewers (miles)	10	10	10	10	10	10	10	10	10	10
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

Note: No capital asset indicators are available for the general government or library function.

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