



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2009**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF STEPHENVILLE, TEXAS**

CITY OF STEPHENVILLE, TEXAS
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Page Number</u>
 INTRODUCTORY SECTION	
Letter of Transmittal	i – v
GFOA Certificate of Achievement	vi
Organizational Chart	vii
Principal City Officials	viii
 FINANCIAL SECTION	
Independent Auditors’ Report.....	1 – 2
Management’s Discussion and Analysis	3 – 11
 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities.....	13
 Fund Financial Statements	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15

(continued)

CITY OF STEPHENVILLE, TEXAS
TABLE OF CONTENTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Fund Financial Statements (Continued)	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	17 – 19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds.....	22 – 23
Notes to Financial Statements.....	24 – 45
Combining Fund Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	47

(continued)

CITY OF STEPHENVILLE, TEXAS
TABLE OF CONTENTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Combining Fund Statements and Schedules (Continued)	
Nonmajor Special Revenue Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Hotel/Motel Occupancy Tax Fund	48
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Child Safety Fund	49
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Public Safety Fund	50
Nonmajor Debt Service Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	51
Nonmajor Enterprise Funds	
Combining Balance Sheet	52
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	53
Combining Statement of Cash Flows	54 – 55
Agency Funds	
Combining Statement of Changes in Assets and Liabilities	56

(continued)

CITY OF STEPHENVILLE, TEXAS

**TABLE OF CONTENTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Table Number</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited)		
Net Assets by Component.....	1	57
Changes in Net Assets	2	58 – 59
Fund Balances – Governmental Funds	3	60
Changes in Fund Balances – Governmental Funds	4	61 – 62
Assessed Value and Estimated Actual Value of Taxable Property.....	5	63
Direct and Overlapping Property Tax Rates.....	6	64
Principal Property Taxpayers.....	7	65
Property Tax Levies and Collections.....	8	66
Ratios of Outstanding Debt by Type	9	67
Ratios of Net General Bonded Debt Outstanding.....	10	68
Direct and Overlapping Governmental Activities Debt.....	11	69
Legal Debt Margin and Tax Rate Limitations Information	12	70
Pledged Revenue Coverage	13	71
Demographic and Economic Statistics	14	72
Principal Employees	15	73
Fulltime Equivalent City Government Employees by Function/Program	16	74
Operating Indicators by Function/Program	17	75
Capital Asset Statistics by Function/Program.....	18	76

(continued)

CITY OF STEPHENVILLE, TEXAS

**TABLE OF CONTENTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**Page
Number**

SINGLE AUDIT SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77 – 78
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	79 – 80
Schedule of Expenditures of Federal Awards.....	81
Notes to Schedule of Expenditures of Federal Awards	82
Schedule of Findings and Questioned Costs.....	83
Summary Schedule of Prior Audit Findings.....	84

THIS PAGE LEFT BLANK INTENTIONALLY

INTRODUCTORY SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



February 1, 2010

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

The City of Stephenville (City) Financial Management Policies requires that the City's Finance Department prepare a complete set of financial 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, 2009 is hereby issued.

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

The City's financial statements have been audited by Pattillo, Brown and Hill, L.L.P., 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, 2009, 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, 2009 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the City

The City was incorporated in 1889 and chartered a home-rule city under Texas law in 1961. The City occupies approximately 11.79 square miles and serves a population of about 17,950. 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 heads 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.

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 generally 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 Council formally adopts the budget and legally appropriates available monies for activities of the General Fund, Enterprise Funds, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

No later than August 1st, the City Administrator submits to the City Council a proposed budget which provides a complete plan for the fiscal year commencing October 1. The budget includes proposed expenditures and means of financing them. The proposed budget is made available for public inspection and a public hearing is held to allow for citizen comment. After the public hearing, Council may make changes to any item in the budget, except those fixed by law. No later than September 23, the budget is legally enacted via an ordinance which sets the limit on expenditures during the fiscal year. Additional expenditures may be authorized in the case of grave public necessity to meet unusual and unforeseen conditions which could not have reasonably been foreseen at the time the budget was adopted.

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the department level. However expenditures are monitored monthly at the department level to insure financial accountability by department directors. Management control of budgets is further maintained at the line item level within the department. The City also maintains an encumbrance accounting system to further accomplish budgetary control. Under the City's financial policies, encumbered amounts in the General Fund at year end lapse and balances flow forward as undesignated fund balance. Encumbrances are generally re-appropriated as a part of the following year's budget. As demonstrated by the statements and schedules

included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Economic Conditions and Outlook

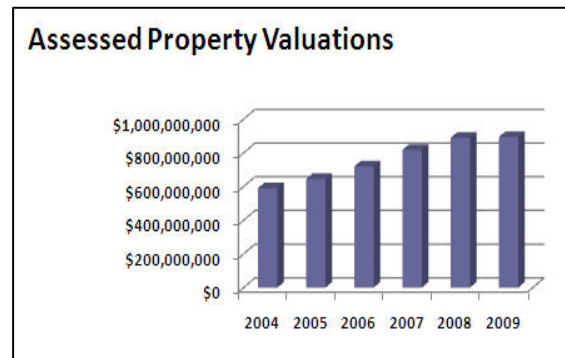
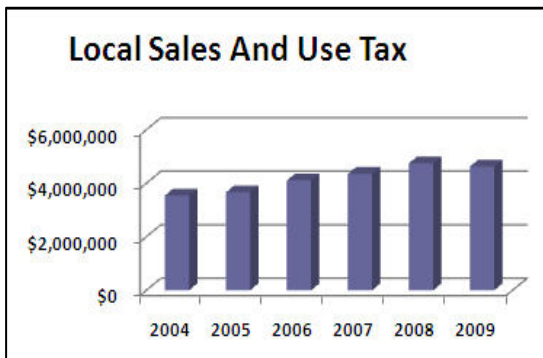
The information presented in the financial statements is perhaps best understood when it is considered from the specific environment within which the City operates.

Local Economy. The City currently enjoys a fairly stable and diversified economic environment, bolstered by the strength of both the Cross Timbers area and the State of Texas. Local manufacturing includes coated abrasives, oilfield related products, cream cheese, fiber gratings and fasteners, metal processing of electrical products, trailer customizing, and forging pipe unions. Tarleton State University provides further economic stability as the largest employer. Agriculture is Stephenville's leading industry with dairy, horse and cattle ranching, and agricultural crop production as the major economic contributors. Erath County is the state's leading milk producer. Stephenville continues to act as a retail and medical hub of the area. The local unemployment rate of 7.1% continues to compare favorably with state and national levels. Property values, sales tax receipts and building activity reflect the area's positive economic climate.

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

Property valuations increased by \$3.5 million (.39%) in 2009 to \$894 million. While taxable values increase, growth has maintained a slow yet steady upward trend. Residential and commercial construction continues to be steady with another new residential development being established. The property tax rate is \$.4435, an increase of \$.0085. This is the first increase in over three years.

The City's largest revenue stream is generated by sales tax. In November 2008, the citizens voted to allow the sale of beer and wine for off-premise consumption. Therefore, the 2% decrease in sales tax receipts posted over the previous year, create a challenging comparison. The local retail industry includes such giants as Wal-Mart, H-E-B Grocery, Staples, JCPenney, Beall's Department Store, Tractor Supply, CVS and Walgreens.



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 2009-2010 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 on-going economic challenges will require careful long-range planning. The City has responded to the economy 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.

For FY 08/09, the general fund ended the year with an unreserved fund balance of \$7,358,831 or 68% of expenditures. This compares very favorably to the City's established Financial Management Policy of 25% minimum.

Debt Management. The City has been funding its capital program from a combination of current revenues, capital debt and surplus working capital since 1996. The FY 08/09 annual debt service supported tax rate requirements are \$.0588 per \$100 of taxable assessed property value, well below the statutory legal limit of \$2.50 per \$100 of taxable assessed property value.

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, 2009, the average rate on the operating account balances was .43 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 1.77 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. The City currently maintains third-party coverage for workers' compensation, general liability, automobile liability, public officials (errors and omissions) liability, law enforcement liability, and property damage by participating in a statewide, joint, self-insurance pool operated by the Texas Municipal League (TML) Intergovernmental Risk Pool. The City purchases insurance with limits of \$2 million per occurrence. 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. In an effort to prevent and/or minimize the risk, management promotes safety and awareness programs through employee training in the form of films, courses and on-site instruction.

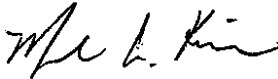
Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Stephenville for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008.

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 twenty-fourth consecutive year that the City of Stephenville has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.


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

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

Respectfully Submitted,



Mark A. Kaiser
City Administrator



Walter G. Wood
Director of Finance & Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Stephenville
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2008

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.



A stylized, handwritten signature in black ink, consisting of several large, sweeping loops.

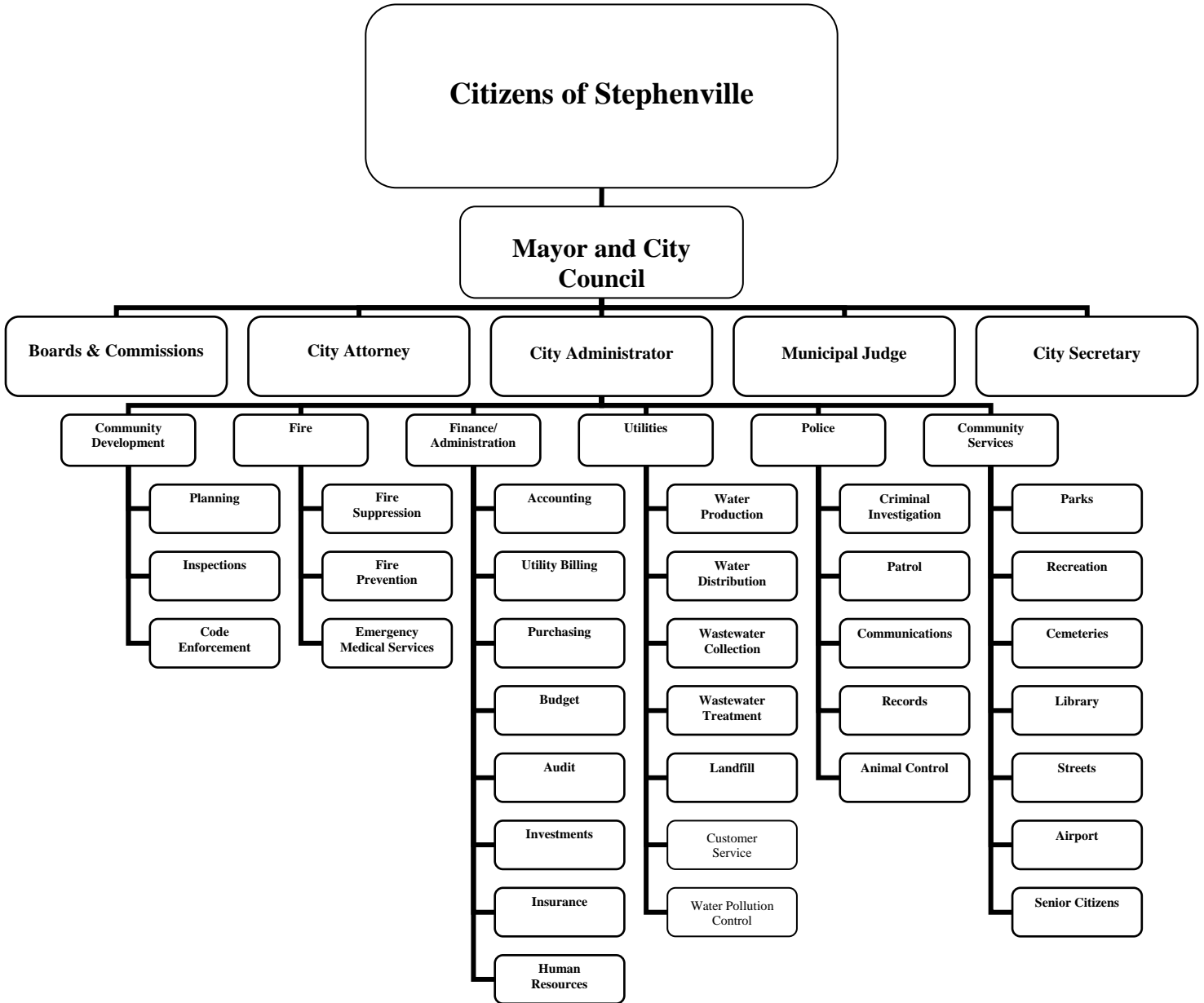
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

CITY OF STEPHENVILLE, TEXAS

ORGANIZATION CHART



CITY OF STEPHENVILLE, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2009

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

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2009, 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, 2009, 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 January 27, 2010, 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 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

January 27, 2010

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2009. 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, 2009, by \$54,339,240 (net assets). Of this amount, \$11,227,146 (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 \$2,124,479. The majority of this increase is attributable to capital grants and excess revenue over expenditures.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,477,257, a decrease of \$2,956,632 over the prior year. The decrease in combined ending fund balances is attributable to use of surplus funds for capital projects. Approximately 99% of this total amount, \$9,368,506 is available for spending at the government's discretion (unreserved fund balance).
- As of September 30, 2009, unreserved fund balance for the General Fund was \$7,358,831 or 68 percent of total General Fund expenditures. Negative variances in budgeted revenues with positive variances in expenditures resulted in an overall planned decrease to the General Fund Balance of \$2,192,695.
- The City's total bond debt increased by \$1,075,000 (54%) during the current fiscal year as a result of principal retirement offset by the issuance of \$1,500,000 in general obligation bonds to construct a new Aquatic Center.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Stephenville is improving or deteriorating. The government-wide financial statements can be found on pages 12 – 13 of this report.

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 the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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.

Reporting the City's Most Significant Funds

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. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Establishment of some funds is required by state laws or bond covenants. However, the City Council established other funds to help control and manage money for particular purposes or as evidence of meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the available balances at year-end. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there has been an increase or decrease in financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements. The basic governmental fund financial statements can be found on pages 14 – 16 of this report.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. The General Fund and Capital Projects Fund are both presented as major funds. Data for the other nonmajor 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 charges customers for the services it provides through service delivery agreements to outside customers or through customer service agreements within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise Funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements, but with additional detail and information, such as cash flows. Individual proprietary fund data is found on pages 20 – 23 of this report.

The City maintains one type of proprietary fund – Enterprise Funds. 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. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

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 funds 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 certain supplementary information in the form of combining fund statements and schedules for nonmajor funds. These are presented immediately following the notes to the financial statements beginning on page 46 of this report.

THE CITY AS A WHOLE

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$54,339,240 as of September 30, 2009, an increase of 4.4% compared to fiscal year ending 2008. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are \$30,181,049, an increase of \$1.2 million over prior year. The analysis focused on the net assets and changes in general revenues of the City's governmental and business-type activities.

By far, the largest portion of the City's net assets (70 percent) reflects its investments in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any outstanding debt used to acquire those assets. The investments in capital assets net of related debt increased by \$10,222,056. 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.

An additional portion of the City's net assets, \$1,145,264, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$11,227,146, may be used to meet the City's ongoing obligations to citizens and creditors.

As of September 30, 2009, the City is able to report positive balances in all three categories of net assets, both for 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 \$2,124,479.

CITY OF STEPHENVILLE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 10,303,819	\$ 13,278,949	\$ 8,804,442	\$ 13,379,464	\$ 19,108,261	\$ 26,658,413
Capital assets	<u>17,663,994</u>	<u>12,503,386</u>	<u>47,802,186</u>	<u>43,654,085</u>	<u>65,466,180</u>	<u>56,157,471</u>
Total assets	<u>27,967,813</u>	<u>25,782,335</u>	<u>56,606,628</u>	<u>57,033,549</u>	<u>84,574,441</u>	<u>82,815,884</u>
Liabilities	507,717	505,850	1,728,998	2,034,031	2,236,715	2,539,881
Noncurrent liabilities	<u>3,301,905</u>	<u>2,203,494</u>	<u>24,696,581</u>	<u>26,034,994</u>	<u>27,998,486</u>	<u>28,238,488</u>
Total liabilities	<u>3,809,622</u>	<u>2,709,344</u>	<u>26,425,579</u>	<u>28,069,025</u>	<u>30,235,201</u>	<u>30,778,369</u>
Net assets:						
Invested in capital assets, net of related debt	18,471,335	10,513,386	23,495,495	21,231,388	41,966,830	31,744,774
Restricted	434,394	397,365	710,870	554,647	1,145,264	952,012
Unrestricted	<u>5,252,462</u>	<u>12,162,240</u>	<u>5,974,684</u>	<u>7,178,489</u>	<u>11,227,146</u>	<u>19,340,729</u>
Total net assets	<u>\$ 24,158,191</u>	<u>\$ 23,072,991</u>	<u>\$ 30,181,049</u>	<u>\$ 28,964,524</u>	<u>\$ 54,339,240</u>	<u>\$ 52,037,515</u>

Governmental Activities. The City's total revenues for governmental activities increased from the previous year by \$356,451 or 2.9%. General revenues decreased \$146,814, which is down 1.4% when compared to the prior year. The ad valorem tax revenue increased \$259,320 or 7%. This increase was due to an increase in net assessed taxable value from \$818 million in the prior fiscal year to \$890 million in the current fiscal year. The tax rate decreased by .01 to \$.435 per \$100 assessed valuation.

The following table provides a summary of the City's operations for the year ended September 30, 2009, with comparative totals for the year ended September 30, 2008. Governmental activities increased the City's net assets by \$1,085,200 or 51 percent of the total growth in net assets. The net assets invested in capital assets, net of related debt increased by \$4,108,108 or 39 percent. Unrestricted net assets decreased by \$3,059,937 or 25 percent.

CITY OF STEPHENVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 1,278,031	\$ 1,567,484	\$ 6,564,355	\$ 6,391,799	\$ 7,842,386	\$ 7,959,283
Operating grants	109,861	57,969	20,062	-	129,923	57,969
Capital grants and contributions	740,974	148	249,253	870,718	990,227	870,866
General revenues:						
Property taxes	3,918,943	3,659,623	-	-	3,918,943	3,659,623
Sales taxes	4,622,690	4,745,309	-	-	4,622,690	4,745,309
Franchise taxes	1,186,650	1,169,858	-	-	1,186,650	1,169,858
Other taxes	372,815	434,498	-	-	372,815	434,498
Investment earnings	108,218	454,269	68,079	469,667	176,297	923,936
Miscellaneous	124,613	17,186	7,888	-	132,501	17,186
Total revenues	12,462,795	12,106,344	6,909,637	7,732,184	19,372,432	19,838,528
Expenses:						
General government	1,309,902	1,331,583	-	-	1,309,902	1,331,583
Public safety	6,043,653	5,504,975	-	-	6,043,653	5,504,975
Streets	1,210,135	1,183,435	-	-	1,210,135	1,183,435
Culture and recreation	2,340,312	2,166,545	-	-	2,340,312	2,166,545
Community development	408,144	395,182	-	-	408,144	395,182
Interest on long-term debt	72,220	103,490	-	-	72,220	103,490
Water and wastewater	-	-	4,819,886	4,526,893	4,819,886	4,526,893
Storm water drainage	-	-	346,159	245,371	346,159	245,371
Sanitary landfill	-	-	527,255	290,349	527,255	290,349
Airport	-	-	170,287	127,018	170,287	127,018
Total expenses	11,384,366	10,685,210	5,863,587	5,189,631	17,247,953	15,874,841
Increases in net assets before transfers	1,078,429	1,421,134	1,046,050	2,542,553	2,124,479	3,963,687
Transfers	6,771	(104,871)	(6,771)	104,871	-	-
Change in net assets	1,085,200	1,316,263	1,039,279	2,647,424	2,124,479	3,963,687
Net assets - beginning	23,072,991	21,756,728	28,964,524	26,317,100	52,037,515	48,073,828
Prior period adjustment	-	-	177,246	-	177,246	-
Net assets - ending	\$ 24,158,191	\$ 23,072,991	\$ 30,181,049	\$ 28,964,524	\$ 54,339,240	\$ 52,037,515

Business-type Activities. Revenues of the City's business-type activities were approximately \$6.9 million for the fiscal year ended September 30, 2009. Revenues decreased approximately \$822,547 or 10.6% compared to the prior fiscal year. Expenses for the City's business-type activities increased approximately \$673,953 or 12.9%. The increase was primarily due to low turnover staffing levels and additional maintenance costs. Net assets from business-type activities increased by \$1,216,525 or 4 percent from \$28,964,524 to \$30,181,049, accounting for the other 49 percent of the total growth in net assets.

FINANCIAL ANALYSIS OF THE CITY'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 \$9,477,257, a decrease of \$2.95 million from the prior year. Approximately 99% of this total amount, \$9,368,506, constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved, to indicate that it is not available for new spending because it has already been committed, a) to pay debt service (\$96,071), and b) to liquidate prepaid items (\$12,680). Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City budgeted for a decrease in fund balance on a budget basis of \$1,199,690, but due to actual revenues being more than budgeted and actual expenditures being less than budgeted, and some capital projects not being initiated during the year, the fund balance decreased by 13 percent during the current fiscal year. Sales tax collections decreased by 2% from the previous year but the City collected 8.8% 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 \$88,529; 2) franchise fees were \$57,230; 3) licenses and permit fees were \$46,292 more than budgeted; and 4) service charges were also higher than budgeted by \$66,964. Expenditures were lower than budgeted mainly because capital outlays were \$182,674 lower.

The Capital Projects Fund has a fund balance of \$1,676,876, a decrease of 31 percent, all of which is restricted for specific construction projects.

The Debt Service Fund has a fund balance of \$96,071, an increase of eight percent, all of which is reserved for the repayment of debt.

The Special Revenue Funds have a fund balance of \$332,799, a decrease of five percent, all of which is restricted for the special programs defined by revenue source.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$5,974,684. The increase in net assets was \$1,039,279. 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

During the year there was a \$942,800 increase in appropriations between the original budget and final amended budget. Following are the main components of the increase:

- \$21,800 additional appropriation street reconstruction.
- \$23,600 addition to acquire right-of-way for the Ollie/Mary transportation project.

- \$25,000 additional appropriation in public safety to purchase Digital Video Systems for the patrol cars.
- \$48,000 addition for consultant services for government and relations.
- \$126,000 transfer to Airport Fund for the completion of a new terminal.
- \$2,000,000 transfer to the Capital Project Fund for the construction of the Aquatics Complex.

Actual expenditures on a budgetary basis were \$10,841,564 compared to the final budget expenditures of \$11,539,746. The \$698,182 variance was primarily attributable to capital projects not initiated during the year, due to close monitoring of expenditures by departments and performing better than anticipated. Actual revenues on a budgetary basis were \$10,773,986 compared to the final budget of \$10,278,056. The \$495,930 variance was due primarily to increases in sales tax revenue and licenses/permit fees.

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$65,466,180 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, park facilities and infrastructure.

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

- Surface Water Supply Project, \$188,000
- Annual Street Reconstruction, \$391,000;
- Water Line Replacements, \$451,000;
- Water and Sewer Service to Newly Annexed Areas, \$488,450;
- Ollie/Mary Local Transportation Project, \$645,872;
- Major Thoroughfare Renovation Project, \$819,046;
- Storm Water Drainage improvements, \$3.3 million; and
- Aquatic Center, \$3.8 million.

CITY OF STEPHENVILLE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 2,328,617	\$ 2,539,141	\$ 909,278	\$ 798,082	\$ 3,237,895	\$ 3,337,223
Buildings and improvements	4,671,420	3,398,967	6,334,727	6,031,706	11,006,147	9,430,673
Equipment	5,970,863	5,305,505	2,393,219	1,955,030	8,364,082	7,260,535
Infrastructure	15,288,837	10,880,627	41,944,333	41,518,819	57,233,170	52,399,446
Construction in progress	-	-	17,359,605	13,226,871	17,359,605	13,226,871
Less: accumulated depreciation	(10,595,743)	(9,620,854)	(21,138,976)	(19,876,423)	(31,734,719)	(29,497,277)
Total capital assets	<u>\$ 17,663,994</u>	<u>\$ 12,503,386</u>	<u>\$ 47,802,186</u>	<u>\$ 43,654,085</u>	<u>\$ 65,466,180</u>	<u>\$ 56,157,471</u>

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$27,106,865. Of this amount, \$3,065,000 represents bonded debt backed by the full faith and credit of the City, \$15,725,000 represents utility revenue bonds secured by water and sewer revenues and \$181,865 represents revenue bonds secured by airport revenues, and \$8,135,000 secured by storm water drainage revenues.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation	\$ 1,050,000	\$ 1,325,000	\$ -	\$ -	\$ 1,050,000	\$ 1,325,000
Certificates of obligations	2,015,000	665,000	-	-	2,015,000	665,000
Revenue bonds payable	-	-	24,041,865	25,549,155	24,041,865	25,549,155
	<u>\$ 3,065,000</u>	<u>\$ 1,990,000</u>	<u>\$ 24,041,865</u>	<u>\$ 25,549,155</u>	<u>\$ 27,106,865</u>	<u>\$ 27,539,155</u>

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

	Moody's Investors Service	Standard and Poor's
General Obligation Bonds	A3	A+

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City of Stephenville as of the fiscal year-end was 7.1% up from 4.0% in the prior year due to national economic concerns. Even though the rate has increased it still compares favorably with state and national levels.

Sales tax collections for 2008-2009 were down by 2% compared to the previous year, but collections still exceeded budget by \$373,000 or 8.77%. With this in mind, a conservative approach is being taken in determining estimated collections for the upcoming budget year.

The above factors were considered in preparing the City of Stephenville's budget for the 2009-10 fiscal year. Accordingly, next years' budget incorporates a \$.0085 increase in the property tax rate to \$.4435 per \$100 valuation. Certified taxable property value for 2009 is \$894 million. This is a .39% increase over the last year's values, or \$3.5 million. The largest portion of the increase is due to the reevaluation of existing property.

The City uses reserves from the General Fund to supplement capital projects during the year as needs arise and where favorable unit pricing is received on such projects. Additionally, the City's Fiscal Management Practices call for the designation of any surplus of revenues over expenses at fiscal year-end as a means of providing resources for major capital projects. There are ample funds for transfers during 2010, should the City Council so desire, and still retain the minimum fund balance provisions established by the Fiscal Management Practices.

REQUESTS FOR INFORMATION

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

THIS PAGE LEFT BLANK INTENTIONALLY

**BASIC
FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 7,227,556	\$ 4,341,320	\$ 11,568,876
Receivables (net of allowances for uncollectibles):			
Taxes	974,389	-	974,389
Accounts	388,908	1,115,135	1,504,043
Internal balances	(2,172,055)	2,172,055	-
Inventory	12,680	-	12,680
Restricted investments	3,849,841	941,034	4,790,875
Deferred charges	22,500	234,898	257,398
Capital assets:			
Land	2,328,617	909,278	3,237,895
Buildings and improvements	4,671,420	6,334,727	11,006,147
Machinery and equipment	5,970,863	2,393,219	8,364,082
Infrastructure/water and wastewater distribution	15,288,837	41,944,333	57,233,170
Construction in progress	-	17,359,605	17,359,605
Less: accumulated depreciation	<u>(10,595,743)</u>	<u>(21,138,976)</u>	<u>(31,734,719)</u>
Total capital assets	<u>17,663,994</u>	<u>47,802,186</u>	<u>65,466,180</u>
Total assets	<u>27,967,813</u>	<u>56,606,628</u>	<u>84,574,441</u>
LIABILITIES			
Accounts payable	225,656	1,229,980	1,455,636
Accrued liabilities	262,996	41,169	304,165
Accrued interest payable	19,065	255,548	274,613
Customer deposits	-	202,301	202,301
Noncurrent liabilities:			
Due within one year	696,905	1,776,568	2,473,473
Due in more than one year	<u>2,605,000</u>	<u>22,920,013</u>	<u>25,525,013</u>
Total liabilities	<u>3,809,622</u>	<u>26,425,579</u>	<u>30,235,201</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,471,335	23,495,495	41,966,830
Restricted for:			
Hotel/motel economic development	285,308	-	285,308
Child and public safety	47,491	-	47,491
Debt service	101,595	710,870	812,465
Unrestricted	<u>5,252,462</u>	<u>5,974,684</u>	<u>11,227,146</u>
Total net assets	<u>\$ 24,158,191</u>	<u>\$ 30,181,049</u>	<u>\$ 54,339,240</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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	\$ 1,309,902	\$ 231,122	\$ 12,400	\$ -	\$(1,066,380)	\$ -	\$(1,066,380)
Public safety	6,043,653	677,662	67,792	-	(5,298,199)	-	(5,298,199)
Streets	1,210,135	21,472	-	740,974	(447,689)	-	(447,689)
Culture and recreation	2,340,312	221,589	29,669	-	(2,089,054)	-	(2,089,054)
Community developmen	408,144	126,186	-	-	(281,958)	-	(281,958)
Interest on long-term debt	72,220	-	-	-	(72,220)	-	(72,220)
Total governmental activities	<u>11,384,366</u>	<u>1,278,031</u>	<u>109,861</u>	<u>740,974</u>	<u>(9,255,500)</u>	<u>-</u>	<u>(9,255,500)</u>
Business-type activities							
Water and wastewater	4,819,886	5,492,233	-	-	-	672,347	672,347
Sanitary landfill	527,255	414,503	-	-	-	(112,752)	(112,752)
Airport	170,287	73,180	20,062	249,253	-	172,208	172,208
Storm water drainage	346,159	584,439	-	-	-	238,280	238,280
Total business-type activities	<u>5,863,587</u>	<u>6,564,355</u>	<u>20,062</u>	<u>249,253</u>	<u>-</u>	<u>970,083</u>	<u>970,083</u>
Total	<u>\$ 17,247,953</u>	<u>\$ 7,842,386</u>	<u>\$ 129,923</u>	<u>\$ 990,227</u>	<u>(9,255,500)</u>	<u>970,083</u>	<u>(8,285,417)</u>
General revenues:							
Taxes:							
Property - general purpose					3,382,272	-	3,382,272
Property - debt service					536,671	-	536,671
Sales					4,622,690	-	4,622,690
Franchise					1,186,650	-	1,186,650
Other					372,815	-	372,815
Investment earning:					108,218	68,079	176,297
Miscellaneous					124,613	7,888	132,501
Transfers					6,771	(6,771)	-
Total general revenues and transfers					<u>10,340,700</u>	<u>69,196</u>	<u>10,409,896</u>
Change in net asset:					1,085,200	1,039,279	2,124,479
Net assets, beginning					23,072,991	28,964,524	52,037,515
Prior period adjustment					-	177,246	177,246
Net assets, beginning, restated					<u>23,072,991</u>	<u>29,141,770</u>	<u>52,214,761</u>
Net assets, ending					<u>\$ 24,158,191</u>	<u>\$ 30,181,049</u>	<u>\$ 54,339,240</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 6,805,705	\$ 3,849,841	\$ 421,851	\$ 11,077,397
Receivables (net of allowance for uncollectibles):				
Taxes	886,701	-	87,688	974,389
Accounts	385,904	1,490	1,514	388,908
Inventory	<u>12,680</u>	<u>-</u>	<u>-</u>	<u>12,680</u>
Total assets	<u>8,090,990</u>	<u>3,851,331</u>	<u>511,053</u>	<u>12,453,374</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	146,597	2,400	76,659	225,656
Accrued liabilities	262,996	-	-	262,996
Due to other funds	-	2,172,055	-	2,172,055
Deferred revenue	<u>309,886</u>	<u>-</u>	<u>5,524</u>	<u>315,410</u>
Total liabilities	<u>719,479</u>	<u>2,174,455</u>	<u>82,183</u>	<u>2,976,117</u>
Fund balances:				
Reserved for:				
Inventories	12,680	-	-	12,680
Debt service	-	-	96,071	96,071
Unreserved, reported in:				
General fund	7,358,831	-	-	7,358,831
Special revenue funds	-	-	332,799	332,799
Capital projects fund	<u>-</u>	<u>1,676,876</u>	<u>-</u>	<u>1,676,876</u>
Total fund balances	<u>7,371,511</u>	<u>1,676,876</u>	<u>428,870</u>	<u>9,477,257</u>
Total liabilities and fund balances	<u>\$ 8,090,990</u>	<u>\$ 3,851,331</u>	<u>\$ 511,053</u>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				
				17,663,994
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				
				315,410
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.				
				<u>(3,298,470)</u>
Net assets of governmental activities				
				<u>\$ 24,158,191</u>

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

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 3,391,477	\$ -	\$ 531,147	\$ 3,922,624
Sales	4,622,690	-	-	4,622,690
Franchise	1,186,650	-	-	1,186,650
Other	44,902	-	327,913	372,815
Service charges	941,821	-	6,228	948,049
Fines and forfeitures	212,857	-	13,226	226,083
Licenses and permits	131,341	-	-	131,341
Intergovernmental	119,324	1,490	3,767	124,581
Investment earnings	93,582	11,487	3,149	108,218
Miscellaneous	29,342	-	5,847	35,189
Total revenues	<u>10,773,986</u>	<u>12,977</u>	<u>891,277</u>	<u>11,678,240</u>
EXPENDITURES				
Current:				
General government	1,355,822	-	-	1,355,822
Public safety	5,817,765	-	9,653	5,827,418
Streets	845,429	-	-	845,429
Culture and recreation	1,638,894	-	368,105	2,006,999
Community development	407,208	-	-	407,208
Debt service:				
Principal	-	-	425,000	425,000
Interest and fiscal charges	-	-	99,652	99,652
Bond issuance costs	-	25,000	-	25,000
Capital outlay	<u>776,446</u>	<u>4,489,047</u>	<u>-</u>	<u>5,265,493</u>
Total expenditures	<u>10,841,564</u>	<u>4,514,047</u>	<u>902,410</u>	<u>16,258,021</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(67,578)</u>	<u>(4,501,070)</u>	<u>(11,133)</u>	<u>(4,579,781)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	212,771	2,248,266	-	2,461,037
Transfers out	(2,454,266)	-	-	(2,454,266)
Proceeds from sale of capital assets	21,881	-	-	21,881
Issuance of bonds	-	1,500,000	-	1,500,000
Proceeds from insurance	94,497	-	-	94,497
Total other financing sources (uses)	<u>(2,125,117)</u>	<u>3,748,266</u>	<u>-</u>	<u>1,623,149</u>
NET CHANGE IN FUND BALANCES	<u>(2,192,695)</u>	<u>(752,804)</u>	<u>(11,133)</u>	<u>(2,956,632)</u>
FUND BALANCES, BEGINNING	<u>9,564,206</u>	<u>2,429,680</u>	<u>440,003</u>	<u>12,433,889</u>
FUND BALANCES, ENDING	<u>\$ 7,371,511</u>	<u>\$ 1,676,876</u>	<u>\$ 428,870</u>	<u>\$ 9,477,257</u>

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

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, 2009

Amounts reported for governmental activities in the Statement of Activities (page 13) are different because:

Net change in fund balances - total governmental funds (page 15)	\$(2,956,632)
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.	4,429,420
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	731,188
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(72,797)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of the differences in the treatment of long-term debt and related items.	(1,052,500)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>6,521</u>
Change in net assets of governmental activities (page 13)	<u>\$ 1,085,200</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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,923,947	\$ 8,717,947	\$ 9,245,719	\$ 527,772
Service charges	724,859	874,789	941,821	67,032
Fines and forfeitures	270,000	270,000	212,857	(57,143)
Licenses and permits	135,050	85,050	131,341	46,291
Intergovernmental	58,000	58,000	119,324	61,324
Investment earnings	400,000	250,000	93,582	(156,418)
Miscellaneous	29,200	22,270	29,342	7,072
Total revenues	<u>10,541,056</u>	<u>10,278,056</u>	<u>10,773,986</u>	<u>495,930</u>
EXPENDITURES				
Current:				
General government:				
City council	51,693	99,693	81,922	17,771
City administrator	123,725	123,725	125,547	(1,822)
City secretary	78,968	81,380	81,806	(426)
Emergency management	6,450	6,450	6,053	397
Municipal buildings	130,166	130,167	123,795	6,372
Municipal Service Center	98,932	97,074	86,620	10,454
Financial administration and accounting	325,218	341,158	369,197	(28,039)
Purchasing	57,149	55,910	50,937	4,973
Tax assessment and collection	117,000	117,000	117,219	(219)
Legal counsel	65,763	65,763	78,801	(13,038)
Municipal court	120,000	120,000	132,050	(12,050)
Human resources	102,280	113,346	101,875	11,471
Total general government	<u>1,277,344</u>	<u>1,351,666</u>	<u>1,355,822</u>	<u>(4,156)</u>
Public safety:				
Fire and ambulance administration	213,305	371,465	230,635	140,830
Fire prevention and investigation	160,023	166,027	164,732	1,295
Fire suppression	903,692	988,712	1,040,909	(52,197)
Emergency medical services	907,122	1,054,701	977,569	77,132
Volunteer	35,641	35,641	24,471	11,170
Police administration	121,295	123,580	122,355	1,225
Police patrol	1,713,902	1,846,705	1,738,056	108,649
Police communications	376,042	383,663	364,540	19,123
Police records	153,071	182,152	173,350	8,802
Criminal investigation	575,574	593,294	610,772	(17,478)

(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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES (Continued)				
Current:				
Public safety (continued):				
Police reserve	\$ 75,001	\$ 77,769	\$ 73,383	\$ 4,386
Animal control	119,338	116,870	109,687	7,183
Public safety facility	191,414	192,319	187,306	5,013
Total public safety	<u>5,545,420</u>	<u>6,132,898</u>	<u>5,817,765</u>	<u>315,133</u>
Streets:				
Street maintenance	<u>896,060</u>	<u>908,408</u>	<u>845,429</u>	<u>62,979</u>
Total streets	<u>896,060</u>	<u>908,408</u>	<u>845,429</u>	<u>62,979</u>
Culture and recreation:				
Recreation administration	683,006	689,753	681,203	8,550
Park maintenance	435,940	443,210	431,517	11,693
Cemeteries	128,763	130,580	123,772	6,808
Library	205,187	208,254	204,968	3,286
Senior citizens center	109,747	110,994	120,196	(9,202)
Aquatic Center	<u>-</u>	<u>150,000</u>	<u>77,238</u>	<u>72,762</u>
Total culture and recreation	<u>1,562,643</u>	<u>1,732,791</u>	<u>1,638,894</u>	<u>93,897</u>
Community development:				
Community development planning	174,813	179,988	174,206	5,782
Community development inspection	172,476	174,466	163,897	10,569
Code enforcement	<u>99,470</u>	<u>100,409</u>	<u>69,105</u>	<u>31,304</u>
Total community development	<u>446,759</u>	<u>454,863</u>	<u>407,208</u>	<u>47,655</u>
Total current	<u>9,728,226</u>	<u>10,580,626</u>	<u>10,065,118</u>	<u>515,508</u>

(continued)

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
EXPENDITURES (Continued)				
Capital outlay:				
Public safety:				
Fire suppression	\$ 22,720	\$ 22,720	\$ 18,912	\$ 3,808
Volunteer	10,000	10,000	5,171	4,829
Police patrol	83,000	108,000	107,591	409
Criminal investigation	20,000	20,000	21,668	(1,668)
Total public safety	<u>135,720</u>	<u>160,720</u>	<u>153,342</u>	<u>7,378</u>
Streets:				
Street maintenance	579,000	624,400	497,755	126,645
Total highways and streets	<u>579,000</u>	<u>624,400</u>	<u>497,755</u>	<u>126,645</u>
Culture and recreation:				
Park maintenance	123,000	123,000	82,182	40,818
Cemeteries	31,000	31,000	30,640	360
Total culture and recreation	<u>154,000</u>	<u>154,000</u>	<u>112,822</u>	<u>41,178</u>
Community development:				
Code enforcement	20,000	20,000	12,527	7,473
Total community development inspection	<u>20,000</u>	<u>20,000</u>	<u>12,527</u>	<u>7,473</u>
Total capital outlay	<u>868,720</u>	<u>959,120</u>	<u>776,446</u>	<u>182,674</u>
Total expenditures	<u>10,596,946</u>	<u>11,539,746</u>	<u>10,841,564</u>	<u>698,182</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(55,890)</u>	<u>(1,261,690)</u>	<u>(67,578)</u>	<u>1,194,112</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	206,000	206,000	212,771	6,771
Transfers out	-	(151,000)	(2,454,266)	(2,303,266)
Proceeds from sale of capital assets	7,000	7,000	21,881	14,881
Proceeds from insurance	-	-	94,497	94,497
Total other financing sources (uses)	<u>213,000</u>	<u>62,000</u>	<u>(2,125,117)</u>	<u>(2,187,117)</u>
NET CHANGE IN FUND BALANCE	157,110	(1,199,690)	(2,192,695)	(993,005)
FUND BALANCE, BEGINNING	<u>9,564,206</u>	<u>9,564,206</u>	<u>9,564,206</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 9,721,316</u>	<u>\$ 8,364,516</u>	<u>\$ 7,371,511</u>	<u>\$ (993,005)</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 2,062,461	\$ 2,012,838	\$ 266,021	\$ 4,341,320
Accounts receivable - net	885,779	64,550	164,806	1,115,135
Due from other funds	2,172,055	-	-	2,172,055
Restricted investments	760,905	180,129	-	941,034
Total current assets	<u>5,881,200</u>	<u>2,257,517</u>	<u>430,827</u>	<u>8,569,544</u>
Noncurrent assets:				
Deferred charges	151,399	83,499	-	234,898
Capital assets:				
Land	163,721	-	745,557	909,278
Buildings and improvements	2,349,136	-	3,985,591	6,334,727
Equipment	1,273,229	-	1,119,990	2,393,219
Water and wastewater distribution	41,944,333	-	-	41,944,333
Construction in progress	7,054,271	9,800,012	505,322	17,359,605
Less: accumulated depreciation	(19,787,238)	-	(1,351,738)	(21,138,976)
Total capital assets	<u>32,997,452</u>	<u>9,800,012</u>	<u>5,004,722</u>	<u>47,802,186</u>
Total noncurrent assets	<u>33,148,851</u>	<u>9,883,511</u>	<u>5,004,722</u>	<u>48,037,084</u>
Total assets	<u>39,030,051</u>	<u>12,141,028</u>	<u>5,435,549</u>	<u>56,606,628</u>
LIABILITIES				
Current liabilities:				
Accounts payable	602,534	566,564	60,882	1,229,980
Accrued liabilities	34,873	-	6,296	41,169
Customer deposits	201,601	-	700	202,301
Accrued interest	189,580	40,584	25,384	255,548
Capital lease	-	-	134,984	134,984
Bonds payable	1,390,000	205,000	17,000	1,612,000
Compensated absences payable	28,675	-	909	29,584
Total current liabilities	<u>2,447,263</u>	<u>812,148</u>	<u>246,155</u>	<u>3,505,566</u>
Long-term liabilities:				
Capital lease	-	-	364,740	364,740
Bonds payable	14,335,000	7,930,000	164,865	22,429,865
Liability for landfill closure	-	-	125,408	125,408
Total long-term liabilities	<u>14,335,000</u>	<u>7,930,000</u>	<u>655,013</u>	<u>22,920,013</u>
Total liabilities	<u>16,782,263</u>	<u>8,742,148</u>	<u>901,168</u>	<u>26,425,579</u>
NET ASSETS				
Invested in capital assets, net of related debt	17,423,851	1,748,511	4,323,133	23,495,495
Restricted for debt service	571,325	139,545	-	710,870
Unrestricted	4,252,612	1,510,824	211,248	5,974,684
Total net assets	<u>\$ 22,247,788</u>	<u>\$ 3,398,880</u>	<u>\$ 4,534,381</u>	<u>\$ 30,181,049</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
OPERATING REVENUES				
Water sales	\$ 3,168,739	\$ -	\$ -	\$ 3,168,739
Wastewater charges	2,058,985	-	-	2,058,985
Tap and collection fee:	209,781	-	-	209,781
Delinquent charges	30,860	4,900	-	35,760
Gate charges	-	-	413,398	413,398
Hanger rental	-	-	67,050	67,050
Storm water drainage fees:	26	579,539	-	579,565
Other service charges	23,842	-	7,235	31,077
Total operating revenues	<u>5,492,233</u>	<u>584,439</u>	<u>487,683</u>	<u>6,564,355</u>
OPERATING EXPENSES				
Personnel services	983,290	-	117,024	1,100,314
Contractual services	1,023,305	-	130,793	1,154,098
Utilities	596,639	-	20,029	616,668
Repairs and maintenance	314,497	14,874	39,524	368,895
Other	168,430	201	75,846	244,477
Depreciation	1,081,604	-	268,952	1,350,556
Total operating expenses	<u>4,167,765</u>	<u>15,075</u>	<u>652,168</u>	<u>4,835,008</u>
OPERATING INCOME (LOSS)	1,324,468	569,364	(164,485)	1,729,347
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	27,238	37,024	3,817	68,079
Interest and fiscal charges on debt	(652,121)	(331,084)	(38,751)	(1,021,956)
Intergovernmental	-	-	20,062	20,062
Gain (loss) on sale of assets	7,888	-	(6,623)	1,265
Total nonoperating revenues (expenses)	<u>(616,995)</u>	<u>(294,060)</u>	<u>(21,495)</u>	<u>(932,550)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	707,473	275,304	(185,980)	796,797
CAPITAL CONTRIBUTIONS	-	-	249,253	249,253
TRANSFERS IN	-	-	206,000	206,000
TRANSFERS OUT	(212,771)	-	-	(212,771)
CHANGE IN NET ASSETS	494,702	275,304	269,273	1,039,279
TOTAL NET ASSETS, BEGINNING	21,753,086	3,123,576	4,087,862	28,964,524
PRIOR PERIOD ADJUSTMENT	-	-	177,246	177,246
TOTAL NET ASSETS, BEGINNING, RESTATED	<u>21,753,086</u>	<u>3,123,576</u>	<u>4,265,108</u>	<u>29,141,770</u>
TOTAL NET ASSETS, ENDING	<u>\$ 22,247,788</u>	<u>\$ 3,398,880</u>	<u>\$ 4,534,381</u>	<u>\$ 30,181,049</u>

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, 2009

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 5,498,684	\$ 579,119	\$ 486,629	\$ 6,564,432
Cash payments to employees for services	(976,409)	-	(88,776)	(1,065,185)
Cash payments to suppliers for goods and services	(2,292,321)	(144,227)	(210,224)	(2,646,772)
Cash provided by operating activities	<u>2,229,954</u>	<u>434,892</u>	<u>187,629</u>	<u>2,852,475</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receivables repaid by other funds	209,947	-	-	209,947
Interfund payables repaid to other funds	-	-	(61,922)	(61,922)
Cash received from operating grant	-	-	20,062	20,062
Transfers from other funds	-	-	206,000	206,000
Transfers to other funds	(212,771)	-	-	(212,771)
Cash provided (used) by noncapital financing activities	<u>(2,824)</u>	<u>-</u>	<u>164,140</u>	<u>161,316</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	-	-	473,731	473,731
Grant match for capital grant	-	-	(139,341)	(139,341)
Principal repayments on capital lease	-	-	(151,344)	(151,344)
Principal repayments on bonds	(1,340,000)	(150,000)	(17,290)	(1,507,290)
Interest and fiscal charges on debt	(635,521)	(382,392)	(24,794)	(1,042,707)
Acquisition and construction of capital assets	(1,154,802)	(3,348,467)	(757,795)	(5,261,064)
Cash used by capital and related financing activities	<u>(3,130,323)</u>	<u>(3,880,859)</u>	<u>(616,833)</u>	<u>(7,154,284)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>27,238</u>	<u>37,024</u>	<u>3,817</u>	<u>68,079</u>
Cash provided by investing activities	<u>27,238</u>	<u>37,024</u>	<u>3,817</u>	<u>68,079</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS				
	(875,955)	(3,408,943)	(261,247)	(4,546,145)
CASH AND CASH EQUIVALENTS, BEGINNING				
	<u>3,699,321</u>	<u>5,597,010</u>	<u>527,268</u>	<u>9,823,599</u>
CASH AND CASH EQUIVALENTS, ENDING				
	<u>\$ 2,823,366</u>	<u>\$ 2,188,067</u>	<u>\$ 266,021</u>	<u>\$ 5,277,454</u>
(Including \$760,905 for the Water and Wastewater fund and \$180,129 for the Storm Water Drainage fund in restricted investments)				

(continued)

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
RECONCILIATION OF OPERATING INCOME TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,324,468	\$ 569,364	\$(164,485)	\$ 1,729,347
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,081,604	-	268,952	1,350,556
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	10,617	(420)	(1,454)	8,743
Increase (decrease) in accounts payable	(189,450)	(129,152)	56,197	(262,405)
Increase (decrease) in accrued liabilities	7,582	-	29,052	36,634
Increase (decrease) in customer deposits	(4,166)	-	400	(3,766)
Increase (decrease) in compensated absences	(701)	-	(1,033)	(1,734)
Total adjustments	905,486	(129,572)	352,114	1,128,028
Net cash provided by operating activities	\$ 2,229,954	\$ 439,792	\$ 187,629	\$ 2,857,375
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Contributions of capital assets	\$ -	\$ -	\$ 249,253	\$ 249,253

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

CITY OF STEPHENVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

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

Investments

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

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

Short-term Interfund Receivables/Payables

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories

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

Restricted Assets

Certain bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

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

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

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

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

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

Compensated Absences

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Equity

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

Net Assets

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

Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,298,470 difference are as follows:

General obligations	\$ 3,065,000
Accrued interest payable	19,065
Compensated absences	236,905
Deferred charges	<u>(22,500)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 3,298,470</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 \$4,429,420 difference are as follows:

Capital outlay	\$ 5,492,387
Depreciation expense	<u>(1,062,967)</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>\$ 4,429,420</u>

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 \$72,797 difference are as follows:

Property taxes	\$ 3,681
Ambulance charges for services	22,068
Municipal court fines	<u>47,048</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>\$ 72,797</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 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 \$6,521 difference are as follows:

Accrued interest	\$ 29,932
Compensated absences	(23,411)
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>6,521</u>

Another element of that reconciliation states that, “The net effect of various miscellaneous transactions involving capital assets is to increase net assets.” The details of this \$731,188 difference are as follows:

Capital contributions	\$ 740,974
Disposals of capital assets	(9,786)
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>731,188</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.

(continued)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgets (Continued)

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

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

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 administrator	\$	1,822
City secretary		426
Financial administration and accounting		28,039
Tax assessment and collection		219
Legal counsel		13,038
Municipal court		12,050
Public safety:		
Fire suppression		52,197
Criminal investigation		17,478
Culture and recreation:		
Senior citizens center		9,202
Capital outlay:		
Criminal investigation		1,668

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

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, 2009, the City did not own any types of securities other than those permitted by statute.

As of September 30, 2009, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 10,163,695	43
TexStar	4,586,427	46
FHLB	<u>1,002,890</u>	72
Total fair value	<u>\$ 15,753,012</u>	
Portfolio weighted average maturity (days)		45

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

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

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act. The fund is rated AAAM by Standard & Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Chase.

The fair value of the City's position in these pools is the same as the value of the pool shares.

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.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

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, 2009, the City's entire deposit balance was collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

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

B. Receivables

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

	Governmental Funds			Enterprise Funds			Total
	General	Capital Projects	Nonmajor Funds	Water and Wastewater	Storm Water Drainage	Nonmajor Funds	
Receivables:							
Accounts:							
Customers	\$ 15,735	\$ -	\$ -	\$ 1,255,081	\$ 73,299	\$ 12,312	\$ 1,356,427
Ambulance	664,508	-	-	-	-	-	664,508
Municipal court fines	189,728	-	-	-	-	-	189,728
TxDOT	-	-	-	-	-	152,493	152,493
Other	54,762	1,490	1,514	16,151	-	-	73,917
Taxes:							
Property	97,633	-	16,611	-	-	-	114,244
Sales	810,244	-	-	-	-	-	810,244
Occupancy	-	-	80,581	-	-	-	80,581
Other	32,077	-	-	-	-	-	32,077
Gross receivables	1,864,687	1,490	98,706	1,271,232	73,299	164,805	3,474,219
Less: allowance for uncollectibles	(592,082)	-	(9,504)	(385,453)	(8,749)	-	(995,788)
Net total receivables	\$ 1,272,605	\$ 1,490	\$ 89,202	\$ 885,779	\$ 64,550	\$ 164,805	\$ 2,478,431

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 36,374	\$ -
Delinquent property taxes receivable (debt service)	5,524	-
Ambulance charges for services (general fund)	83,784	-
Municipal court fines	<u>189,728</u>	<u>-</u>
Total governmental funds	<u>\$ 315,410</u>	<u>\$ -</u>

C. Property Tax Calendar

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,309,929	\$ 18,688	\$ -	\$ 2,328,617
Total assets not being depreciated	<u>2,309,929</u>	<u>18,688</u>	<u>-</u>	<u>2,328,617</u>
Capital assets, being depreciated:				
Buildings and improvements	3,398,967	1,272,453	-	4,671,420
Machinery and equipment	5,305,505	751,072	85,714	5,970,863
Infrastructure	<u>11,109,839</u>	<u>4,191,148</u>	<u>12,150</u>	<u>15,288,837</u>
Total capital assets being depreciated	<u>19,814,311</u>	<u>6,214,673</u>	<u>97,864</u>	<u>25,931,120</u>
Accumulated depreciation:				
Buildings and improvements	951,006	100,212	-	1,051,218
Machinery and equipment	3,550,495	372,618	77,143	3,845,970
Infrastructure	<u>5,119,353</u>	<u>590,137</u>	<u>10,935</u>	<u>5,698,555</u>
Total accumulated depreciation	<u>9,620,854</u>	<u>1,062,967</u>	<u>88,078</u>	<u>10,595,743</u>
Total capital assets being depreciated, net	<u>10,193,457</u>	<u>5,151,706</u>	<u>9,786</u>	<u>15,335,377</u>
Governmental activities capital assets, net	<u>\$ 12,503,386</u>	<u>\$ 5,170,394</u>	<u>\$ 9,786</u>	<u>\$ 17,663,994</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 798,082	\$ 111,196	\$ -	\$ 909,278
Construction in progress	<u>13,226,871</u>	<u>4,758,493</u>	<u>625,759</u>	<u>17,359,605</u>
Total assets not being depreciated	<u>14,024,953</u>	<u>4,869,689</u>	<u>625,759</u>	<u>18,268,883</u>
Capital assets, being depreciated:				
Buildings and improvements	6,031,706	303,021	-	6,334,727
Machinery and equipment	1,955,030	535,969	97,780	2,393,219
Water and wastewater system	<u>41,518,819</u>	<u>425,514</u>	<u>-</u>	<u>41,944,333</u>
Total capital assets being depreciated	<u>49,505,555</u>	<u>1,264,504</u>	<u>97,780</u>	<u>50,672,279</u>
Accumulated depreciation:				
Buildings and improvements	1,194,750	200,128	-	1,394,878
Machinery and equipment	1,343,743	168,201	88,003	1,423,941
Water and wastewater system	<u>17,337,930</u>	<u>982,227</u>	<u>-</u>	<u>18,320,157</u>
Total accumulated depreciation	<u>19,876,423</u>	<u>1,350,556</u>	<u>88,003</u>	<u>21,138,976</u>
Total capital assets being depreciated, net	<u>29,629,132</u>	<u>(86,052)</u>	<u>9,777</u>	<u>29,533,303</u>
Business-type activities capital assets, net	<u>\$ 43,654,085</u>	<u>\$ 4,783,637</u>	<u>\$ 635,536</u>	<u>\$ 47,802,186</u>

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

Governmental activities:	
General government	\$ 65,986
Public safety	353,865
Culture and recreation	203,124
Streets	<u>439,992</u>
Total depreciation expense - governmental activities	<u>\$ 1,062,967</u>
Business-type activities:	
Water and wastewater	\$ 1,081,604
Landfill	178,235
Airport	<u>90,717</u>
Total depreciation expense - business-type activities	<u>\$ 1,350,556</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and wastewater	General	\$ <u>2,172,055</u>
Total		\$ <u><u>2,172,055</u></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, 2009, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital projects	General	\$ 2,248,266
Nonmajor enterprise	General	206,000
General	Water and wastewater	<u>212,771</u>
Total interfund transfers		\$ <u><u>2,667,037</u></u>

Transfers in the amount of \$2,248,266 were paid to the Capital Projects Fund from the General Fund to finance capital projects. Transfers in the amount of \$206,000 were used to move unrestricted revenues collected in the General Fund to finance the match for a grant received in the Airport Fund. A transfer in the amount of \$212,771 was paid from the Water and Wastewater Fund to the General Fund for payments in lieu of taxes.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity from the year ended September 30, 2009, was as follows:

	Balance 09/30/08	Additions	Reductions	Adjustments	Balance 09/30/09	Due Within One Year
Governmental activities:						
General obligation bonds	\$ 1,990,000	\$ 1,500,000	\$ 425,000	\$ -	\$ 3,065,000	\$ 460,000
Compensated absences payable	213,494	236,905	213,494	-	236,905	236,905
Total governmental activities	\$ 2,203,494	\$ 1,736,905	\$ 638,494	\$ -	\$ 3,301,905	\$ 696,905
Business-type activities:						
Revenue bonds/certificates of obligation	\$ 25,549,155	\$ -	\$ 1,507,290	\$ -	\$ 24,041,865	\$ 1,612,000
Capital lease	177,337	473,731	151,344	-	499,724	134,984
Estimated landfill closure and postclosure costs	277,184	25,470	-	(177,246)	125,408	-
Compensated absences payable	31,318	29,584	31,318	-	29,584	29,584
Total business-type activities	\$ 26,034,994	\$ 528,785	\$ 1,689,952	\$ (177,246)	\$ 24,696,581	\$ 1,776,568

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.	\$ 515,000
\$1,325,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	1,050,000
\$1,500,000 Combination Tax and Revenue Certificates of Obligation - Series 2009, principal due annually in series through 2019, interest due semi-annually at 3.85%.	<u>1,500,000</u>
	<u>\$ 3,065,000</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Revenue Bonds

The City also issues revenue bonds to finance business-type activities, where it pledges net income from service revenue to repay debt. Revenue bonds outstanding as of September 30, 2009, are as follows:

Business-type activities:

\$5,500,000 Utility System Revenue Bonds - Series 2001, principal due annually in series through 2016, interest due semi-annually at 4.59%.	\$ 4,585,000
\$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%.	400,000
\$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%.	1,040,000
\$4,975,000 Combination Tax Revenue Refunding Bonds - Series 2003, principal due annually in series through 2013, interest due semi-annually at 2.75%.	1,640,000
\$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%.	181,865
\$7,160,000 Combination Tax Revenue Bonds - Series 2004, principal due annually in series through 2019, interest due semi-annually at 4.45%.	6,565,000
\$2,000,000 Certificate of Obligation Bonds - Series 2006, principal due annually in series through 2018, interest due semi-annually at 3.77%.	1,495,000
\$4,300,000 Combination Tax Revenue Certificates of Obligation, Series 2006A, principal due annually in series through 2027, interest due semi-annually at 3.92%.	4,005,000
\$4,130,000 Combination Tax Revenue Certificates of Obligation, Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	<u>4,130,000</u>
Total Revenue Bonds	<u>\$ 24,041,865</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 460,000	\$ 141,995	\$ 601,995
2011	240,000	101,878	341,878
2012	255,000	90,359	345,359
2013	265,000	79,420	344,420
2014	275,000	68,042	343,042
2015-2019	<u>1,570,000</u>	<u>157,539</u>	<u>1,727,539</u>
Total	<u>\$ 3,065,000</u>	<u>\$ 639,233</u>	<u>\$ 3,704,233</u>

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

Fiscal Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,612,000	\$ 919,475	\$ 2,531,475
2011	1,668,000	859,638	2,527,638
2012	1,734,000	797,473	2,531,473
2013	1,805,000	728,071	2,533,071
2014	1,866,000	664,558	2,530,558
2015-2019	9,716,865	2,158,851	11,875,716
2020-2024	1,665,000	970,729	2,635,729
2025-2029	2,030,000	605,493	2,635,493
2030-2033	<u>1,945,000</u>	<u>161,690</u>	<u>2,106,690</u>
Total	<u>\$ 24,041,865</u>	<u>\$ 7,865,978</u>	<u>\$ 31,907,843</u>

Capital Lease

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

The assets acquired through capital leases are as follows:

	Landfill
Asset:	
Machinery and equipment	\$ 794,081
Less: accumulated depreciation	<u>220,511</u>
Total	<u>\$ 573,570</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>
2010	\$ 166,329
2011	193,087
2012	105,163
2013	<u>105,163</u>
Total minimum lease payments	569,742
Less: amount representing interest	<u>70,018</u>
Present value of minimum lease payments	<u>\$ 499,724</u>

G. Contingent Arbitrage Liabilities

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

V. OTHER INFORMATION

A. Risk Management

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

B. Commitments and Contingencies

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

(continued)

V. OTHER INFORMATION (Continued)

B. Commitments and Contingencies (Continued)

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

C. Municipal Solid Waste Landfill Closure and Post Closure Costs

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

State and federal laws and regulations require the City to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of five years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will report a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used to date. Estimated closure and 5-year post closure costs are approximately \$250,814. The landfill site has an estimated net capacity of 584,974 cubic yards and is expected to be closed within the next 10 years; approximately 40% 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 eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

(continued)

V. **OTHER INFORMATION** (Continued)

D. **Retirement Plan** (Continued)

Plan Description (Continued)

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

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

	<u>Plan Year 2008</u>	<u>Plan Year 2009</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

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

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/07	\$ 590,098	\$ 590,098	100%	-
09/30/08	696,664	696,664	100%	-
09/30/09	934,953	934,953	100%	-

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial cost method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period	25 years - open	30 years - closed	29 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7%	7%	7.5%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	N/A	2.1%	2.1%

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2006	\$ 12,884,565	\$ 16,154,691	79.8%	\$ 3,270,126	\$ 5,005,388	65.3%
12/31/2007	13,396,160	19,744,843	67.8%	6,348,683	5,147,282	123.3%
12/31/2008	14,809,934	21,450,591	69.0%	6,640,657	5,773,061	115.0%

(continued)

V. **OTHER INFORMATION** (Continued)

E. **Other Postemployment Benefits**

Supplemental Death Benefits Fund (SDBF)

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

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

Contributions

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

(Retiree-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2007	0.07%	0.07%	100%
2008	0.05%	0.05%	100%
2009	0.06%	0.06%	100%

F. **Prior Period Adjustment**

In the current year, the City discovered an error in the prior year calculation of the estimated liability for landfill closure and postclosure costs. The result of correct this error in the current year was an increase of \$177,246 to the beginning net assets in the Sanitary Landfill Enterprise Fund.

THIS PAGE LEFT BLANK INTENTIONALLY

**COMBINING FUND
STATEMENTS AND SCHEDULES**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2009

	Special Revenue					
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and investments	\$ 281,386	\$ 9,808	\$ 37,683	\$ 328,877	\$ 92,974	\$ 421,851
Receivables (net of allowance for uncollectibles):						
Taxes	80,581	-	-	80,581	7,107	87,688
Accounts	-	-	-	-	1,514	1,514
Total assets	\$ 361,967	\$ 9,808	\$ 37,683	\$ 409,458	\$ 101,595	\$ 511,053
LIABILITIES						
Accounts payable	76,659	-	-	76,659	-	76,659
Deferred revenue	-	-	-	-	5,524	5,524
Total liabilities	76,659	-	-	76,659	5,524	82,183
FUND BALANCES						
Reserved for debt service	-	-	-	-	96,071	96,071
Unreserved	285,308	9,808	37,683	332,799	-	332,799
Total fund balances	285,308	9,808	37,683	332,799	96,071	428,870
 Total liabilities and fund balances	\$ 361,967	\$ 9,808	\$ 37,683	\$ 409,458	\$ 101,595	\$ 511,053

CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Special Revenue				Debt Service	Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Total		
REVENUES						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ 531,147	\$ 531,147
Other	327,913	-	-	327,913	-	327,913
Service charges	-	-	6,228	6,228	-	6,228
Fines and forfeitures	-	5,530	7,696	13,226	-	13,226
Intergovernmental	-	-	3,767	3,767	-	3,767
Investment earnings	2,826	-	-	2,826	323	3,149
Miscellaneous	5,847	-	-	5,847	-	5,847
Total revenues	<u>336,586</u>	<u>5,530</u>	<u>17,691</u>	<u>359,807</u>	<u>531,470</u>	<u>891,277</u>
EXPENDITURES						
Current:						
Public safety	-	7,500	2,153	9,653	-	9,653
Culture and recreation	368,105	-	-	368,105	-	368,105
Debt service:						
Principal	-	-	-	-	425,000	425,000
Interest and fiscal charges	-	-	-	-	99,652	99,652
Total expenditures	<u>368,105</u>	<u>7,500</u>	<u>2,153</u>	<u>377,758</u>	<u>524,652</u>	<u>902,410</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(31,519)</u>	<u>(1,970)</u>	<u>15,538</u>	<u>(17,951)</u>	<u>6,818</u>	<u>(11,133)</u>
FUND BALANCES, BEGINNING	<u>316,827</u>	<u>11,778</u>	<u>22,145</u>	<u>350,750</u>	<u>89,253</u>	<u>440,003</u>
FUND BALANCES, ENDING	<u>\$ 285,308</u>	<u>\$ 9,808</u>	<u>\$ 37,683</u>	<u>\$ 332,799</u>	<u>\$ 96,071</u>	<u>\$ 428,870</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

HOTEL/MOTEL OCCUPANCY TAX FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - other	\$ 380,000	\$ 327,913	\$(52,087)
Investment income	10,000	2,826	(7,174)
Miscellaneous	<u>-</u>	<u>5,847</u>	<u>5,847</u>
Total revenues	<u>390,000</u>	<u>336,586</u>	<u>(53,414)</u>
EXPENDITURES			
Current:			
Culture and recreation	<u>403,500</u>	<u>368,105</u>	<u>35,395</u>
Total culture and recreation	<u>403,500</u>	<u>368,105</u>	<u>35,395</u>
Total expenditures	<u>403,500</u>	<u>368,105</u>	<u>35,395</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(13,500)	(31,519)	(18,019)
FUND BALANCE, BEGINNING	<u>316,827</u>	<u>316,827</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 303,327</u>	<u>\$ 285,308</u>	<u>\$(18,019)</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

CHILD SAFETY FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ 4,500	\$ 5,530	\$ 1,030
Total revenues	<u>4,500</u>	<u>5,530</u>	<u>1,030</u>
EXPENDITURES			
Current:			
Public safety	<u>4,500</u>	<u>7,500</u>	<u>(3,000)</u>
Total public safety	<u>4,500</u>	<u>7,500</u>	<u>(3,000)</u>
Total expenditures	<u>4,500</u>	<u>7,500</u>	<u>(3,000)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,970)	(1,970)
FUND BALANCE, BEGINNING	<u>11,778</u>	<u>11,778</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 11,778</u>	<u>\$ 9,808</u>	<u>\$(1,970)</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

PUBLIC SAFETY FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Fines and forfeitures	\$ -	\$ 7,696	\$ 7,696
Intergovernmental	3,700	3,767	67
Service charges	<u>4,000</u>	<u>6,228</u>	<u>2,228</u>
Total revenues	<u>7,700</u>	<u>17,691</u>	<u>9,991</u>
EXPENDITURES			
Current:			
Public safety	<u>3,700</u>	<u>2,153</u>	<u>1,547</u>
Total public safety	<u>3,700</u>	<u>2,153</u>	<u>1,547</u>
Total expenditures	<u>3,700</u>	<u>2,153</u>	<u>1,547</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,000	15,538	11,538
FUND BALANCE, BEGINNING	<u>22,145</u>	<u>22,145</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 26,145</u>	<u>\$ 37,683</u>	<u>\$ 11,538</u>

CITY OF STEPHENVILLE, TEXAS

DEBT SERVICE FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes - property	\$ 523,690	\$ 531,147	\$ 7,457
Investment earnings	<u>5,000</u>	<u>323</u>	<u>(4,677)</u>
Total revenues	<u>528,690</u>	<u>531,470</u>	<u>2,780</u>
EXPENDITURES			
Debt service:			
Principal	425,000	425,000	-
Interest and fiscal charges	<u>99,690</u>	<u>99,652</u>	<u>38</u>
Total debt service	<u>524,690</u>	<u>524,652</u>	<u>38</u>
Total expenditures	<u>524,690</u>	<u>524,652</u>	<u>38</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,000	6,818	2,818
FUND BALANCE, BEGINNING	<u>89,253</u>	<u>89,253</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 93,253</u>	<u>\$ 96,071</u>	<u>\$ 2,818</u>

THIS PAGE LEFT BLANK INTENTIONALLY

NONMAJOR ENTERPRISE FUNDS

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

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

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

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2009

	Sanitary Landfill	Airport	Total
ASSETS			
Current assets:			
Cash and investments	\$ 265,513	\$ 508	\$ 266,021
Accounts receivable (net of allowances for uncollectibles)	1,440	163,366	164,806
Total current assets	266,953	163,874	430,827
Noncurrent assets:			
Capital assets:			
Land	40,000	705,557	745,557
Buildings and improvements	659,173	3,326,418	3,985,591
Equipment	1,004,859	115,131	1,119,990
Construction in progress	-	505,322	505,322
Less: accumulated depreciation	(784,604)	(567,134)	(1,351,738)
Total capital assets	919,428	4,085,294	5,004,722
Total noncurrent assets	919,428	4,085,294	5,004,722
Total assets	1,186,381	4,249,168	5,435,549
LIABILITIES			
Current liabilities:			
Accounts payable	58,518	2,364	60,882
Accrued liabilities	6,296	-	6,296
Customer deposits	700	-	700
Accrued interest payable	22,972	2,412	25,384
Capital lease	134,984	-	134,984
Bonds payable	-	17,000	17,000
Compensated absences payable	909	-	909
Total current liabilities	224,379	21,776	246,155
Long-term liabilities:			
Capital lease	364,740	-	364,740
Bonds payable	-	164,865	164,865
Liability for landfill closure	125,408	-	125,408
Total long-term liabilities	490,148	164,865	655,013
Total liabilities	714,527	186,641	901,168
NET ASSETS			
Invested in capital assets, net of related debt	419,704	3,903,429	4,323,133
Unrestricted	52,150	159,098	211,248
Total net assets	\$ 471,854	\$ 4,062,527	\$ 4,534,381

CITY OF STEPHENVILLE, TEXAS

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

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
OPERATING REVENUES			
Gate charges	\$ 413,398	\$ -	\$ 413,398
Hanger rental	-	67,050	67,050
Other service charges	<u>1,105</u>	<u>6,130</u>	<u>7,235</u>
Total operating revenues	<u>414,503</u>	<u>73,180</u>	<u>487,683</u>
OPERATING EXPENSES			
Personnel services	117,024	-	117,024
Contractual services	117,178	13,615	130,793
Utilities	634	19,395	20,029
Repairs and maintenance	10,285	29,239	39,524
Other	68,105	7,741	75,846
Depreciation	<u>178,235</u>	<u>90,717</u>	<u>268,952</u>
Total operating expenses	<u>491,461</u>	<u>160,707</u>	<u>652,168</u>
OPERATING INCOME (LOSS)	(76,958)	(87,527)	(164,485)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	3,817	-	3,817
Intergovernmental	-	20,062	20,062
Interest expense	(29,171)	(9,580)	(38,751)
Loss on sale of assets	<u>(6,623)</u>	<u>-</u>	<u>(6,623)</u>
Total nonoperating revenues (expenses)	<u>(31,977)</u>	<u>10,482</u>	<u>(21,495)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(108,935)	(77,045)	(185,980)
CAPITAL CONTRIBUTIONS	-	249,253	249,253
TRANSFER IN	<u>-</u>	<u>206,000</u>	<u>206,000</u>
CHANGE IN NET ASSETS	(108,935)	378,208	269,273
TOTAL NET ASSETS, BEGINNING	<u>403,543</u>	<u>3,684,319</u>	<u>4,087,862</u>
PRIOR PERIOD ADJUSTMENT	177,246	-	177,246
TOTAL NET ASSETS, BEGINNING, RESTATED	<u>580,789</u>	<u>3,684,319</u>	<u>4,265,108</u>
TOTAL NET ASSETS, ENDING	<u>\$ 471,854</u>	<u>\$ 4,062,527</u>	<u>\$ 4,534,381</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 415,381	\$ 71,248	\$ 486,629
Cash payments to employees	(88,776)	-	(88,776)
Cash payments to suppliers for goods and services	<u>(141,784)</u>	<u>(68,440)</u>	<u>(210,224)</u>
Cash provided by operating activities	<u>184,821</u>	<u>2,808</u>	<u>187,629</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund payables repaid to other funds	-	(61,922)	(61,922)
Cash received from operating grant	-	20,062	20,062
Transfers from other funds	<u>-</u>	<u>206,000</u>	<u>206,000</u>
Cash provided by noncapital financing activities	<u>-</u>	<u>164,140</u>	<u>164,140</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on capital lease	(151,344)	-	(151,344)
Principal payments on bonds	-	(17,290)	(17,290)
Interest and fiscal charges on debt	(14,985)	(9,809)	(24,794)
Grant match for capital grant	-	(139,341)	(139,341)
Proceeds from debt issuance	473,731	-	473,731
Acquisition and construction of capital assets	<u>(757,795)</u>	<u>-</u>	<u>(757,795)</u>
Cash used by capital and related financing activities	<u>(450,393)</u>	<u>(166,440)</u>	<u>(616,833)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>3,817</u>	<u>-</u>	<u>3,817</u>
Cash provided by investing activities	<u>3,817</u>	<u>-</u>	<u>3,817</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(261,755)	508	(261,247)
CASH AND CASH EQUIVALENTS, BEGINNING			
	<u>527,268</u>	<u>-</u>	<u>527,268</u>
CASH AND CASH EQUIVALENTS, ENDING			
	<u>\$ 265,513</u>	<u>\$ 508</u>	<u>\$ 266,021</u>

(continued)

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Sanitary Landfill</u>	<u>Airport</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$(76,958)	\$(87,527)	\$(164,485)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	178,235	90,717	268,952
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	478	(1,932)	(1,454)
Increase (decrease) in accounts payable	54,418	1,779	56,197
Increase (decrease) in accrued liabilities	29,281	(229)	29,052
Increase (decrease) in customer deposits	400	-	400
Increase (decrease) in compensated absences	<u>(1,033)</u>	<u>-</u>	<u>(1,033)</u>
Total adjustments	<u>261,779</u>	<u>90,335</u>	<u>352,114</u>
Net cash provided by operating activities	<u>\$ 184,821</u>	<u>\$ 2,808</u>	<u>\$ 187,629</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 249,253</u>	<u>\$ 249,253</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	<u>Balance</u> October 1, 2008	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> September 30, 2009
<u>SENIOR CITIZENS</u>				
Assets				
Due from other funds	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>5,059</u>	\$ <u>-</u>
Total assets	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>5,059</u>	\$ <u>-</u>
Liabilities				
Due to others	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>5,059</u>	\$ <u>-</u>
Total liabilities	\$ <u>5,059</u>	\$ <u>-</u>	\$ <u>5,059</u>	\$ <u>-</u>

STATISTICAL SECTION

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

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

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

NET ASSETS BY COMPONENT

LAST SEVEN FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Governmental activities:							
Invested in capital assets, net of related debt	\$ 8,671,383	\$ 8,877,241	\$ 9,070,652	\$ 9,734,777	\$ 10,157,475	\$ 10,513,386	\$ 18,471,335
Restricted	-	620,104	295,721	381,849	366,934	397,365	434,394
Unrestricted	<u>7,932,439</u>	<u>8,181,076</u>	<u>9,548,977</u>	<u>10,237,660</u>	<u>11,232,319</u>	<u>12,162,240</u>	<u>5,252,462</u>
Total governmental activities net assets	<u>\$ 16,603,822</u>	<u>\$ 17,678,421</u>	<u>\$ 18,915,350</u>	<u>\$ 20,354,286</u>	<u>\$ 21,756,728</u>	<u>\$ 23,072,991</u>	<u>\$ 24,158,191</u>
Business-type activities:							
Invested in capital assets, net of related debt	\$ 11,789,690	\$ 14,229,406	\$ 16,190,916	\$ 17,432,394	\$ 16,564,217	\$ 21,231,388	\$ 23,495,495
Restricted	508,583	470,750	514,842	599,910	665,099	554,647	710,870
Unrestricted	<u>5,621,026</u>	<u>4,134,841</u>	<u>5,301,524</u>	<u>6,516,830</u>	<u>9,087,784</u>	<u>7,178,489</u>	<u>5,974,684</u>
Total business-type activities net assets	<u>\$ 17,919,299</u>	<u>\$ 18,834,997</u>	<u>\$ 22,007,282</u>	<u>\$ 24,549,134</u>	<u>\$ 26,317,100</u>	<u>\$ 28,964,524</u>	<u>\$ 30,181,049</u>
Total:							
Invested in capital assets, net of related debt	\$ 20,461,073	\$ 23,106,647	\$ 25,261,568	\$ 27,167,171	\$ 26,721,692	\$ 31,744,774	\$ 41,966,830
Restricted	508,583	1,090,854	810,563	981,759	1,032,033	952,012	1,145,264
Unrestricted	<u>13,553,465</u>	<u>12,315,917</u>	<u>14,850,501</u>	<u>16,754,490</u>	<u>20,320,103</u>	<u>19,340,729</u>	<u>11,227,146</u>
Total net assets	<u>\$ 34,523,121</u>	<u>\$ 36,513,418</u>	<u>\$ 40,922,632</u>	<u>\$ 44,903,420</u>	<u>\$ 48,073,828</u>	<u>\$ 52,037,515</u>	<u>\$ 54,339,240</u>

Note:

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

TABLE 2

CITY OF STEPHENVILLE, TEXAS
CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
EXPENSES							
Governmental activities							
General government	\$ 1,262,164	\$ 1,421,563	\$ 1,453,986	\$ 1,441,939	\$ 1,591,258	\$ 1,331,583	\$ 1,309,902
Public safety	4,028,747	4,026,402	4,345,846	4,689,443	5,187,628	5,504,975	6,043,653
Streets	894,193	995,046	979,051	1,098,979	1,144,681	1,183,435	1,210,135
Culture and recreation	1,522,896	1,574,032	1,582,864	1,646,017	1,733,627	2,166,545	2,340,312
Community developmen	317,743	296,244	348,177	343,135	381,091	395,182	408,144
Interest on long-term debt	153,445	130,388	109,153	91,817	65,926	103,490	72,220
Total governmental activities expenses	<u>8,179,188</u>	<u>8,443,675</u>	<u>8,819,077</u>	<u>9,311,330</u>	<u>10,104,211</u>	<u>10,685,210</u>	<u>11,384,366</u>
Business-type activities							
Water and wastewater	3,790,830	4,582,690	4,367,671	4,681,174	4,776,359	4,526,893	4,819,886
Storm water drainage	14,034	35,462	166,346	232,955	141,516	245,371	346,159
Sanitary landfill	211,159	151,309	99,078	119,832	272,010	290,349	527,255
Airport	99,847	101,082	8,633	18,075	130,169	127,018	170,287
Total business-type activities expenses	<u>4,115,870</u>	<u>4,870,543</u>	<u>4,641,728</u>	<u>5,052,036</u>	<u>5,320,054</u>	<u>5,189,631</u>	<u>5,863,587</u>
Total expensess	<u>\$ 12,295,058</u>	<u>\$ 13,314,218</u>	<u>\$ 13,460,805</u>	<u>\$ 14,363,366</u>	<u>\$ 15,424,265</u>	<u>\$ 15,874,841</u>	<u>\$ 17,247,953</u>
PROGRAM REVENUES							
Governmental activities							
Charges for services							
General governmen	\$ 21,421	\$ 195,176	\$ 172,292	\$ 177,636	\$ 243,929	\$ 219,353	\$ 231,122
Public safety	884,349	524,561	488,292	600,332	687,567	906,131	677,662
Streets	22,388	28,748	17,213	17,444	27,425	24,046	21,472
Culture and recreation	157,741	147,563	135,607	132,125	171,931	145,225	221,589
Community developmen	82,182	165,803	163,490	180,304	160,745	272,729	126,186
Operating grants and contribution:	146,257	189,805	125,068	172,884	115,859	57,969	109,861
Capital grants and contributions	185,625	366,478	556,425	177,503	115,556	148	740,974
Total governmental activities program revenues	<u>1,499,963</u>	<u>1,618,134</u>	<u>1,658,387</u>	<u>1,458,228</u>	<u>1,523,012</u>	<u>1,625,601</u>	<u>2,128,866</u>
Business-type activities							
Charges for services							
Water and wastewater	\$ 4,261,555	\$ 4,564,193	\$ 5,245,901	\$ 5,628,658	\$ 5,092,578	\$ 5,469,932	\$ 5,492,233
Sanitary landfill	154,650	174,152	174,845	162,306	170,814	275,915	414,503
Airport	24,865	31,077	39,088	51,077	61,916	68,186	73,180
Storm water drainage	511,427	478,143	485,600	485,314	500,779	577,766	584,439
Operating grants and contribution:	-	-	-	-	-	-	20,062
Capital grants and contributions	273,101	411,474	1,513,020	599,393	169,370	870,718	249,253
Total business-type activities program revenues	<u>5,225,598</u>	<u>5,659,039</u>	<u>7,458,454</u>	<u>6,926,708</u>	<u>5,995,457</u>	<u>7,262,517</u>	<u>6,833,670</u>
Total program revenues	<u>\$ 6,725,561</u>	<u>\$ 7,277,173</u>	<u>\$ 9,116,841</u>	<u>\$ 8,384,936</u>	<u>\$ 7,518,469</u>	<u>\$ 8,888,118</u>	<u>\$ 8,962,536</u>

(continued)

CITY OF STEPHENVILLE, TEXAS
CHANGES IN NET ASSETS
(Continued)
LAST SEVEN FISCAL YEARS
(Accrual Basis of Accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
NET (EXPENSE) REVENUES							
Governmental activities	\$(6,679,225)	\$(6,825,541)	\$(7,160,690)	\$(7,853,102)	\$(8,581,199)	\$(9,059,609)	\$(9,255,500)
Business-type activities	<u>1,109,728</u>	<u>788,496</u>	<u>2,816,726</u>	<u>1,874,672</u>	<u>675,403</u>	<u>2,072,886</u>	<u>970,083</u>
Total net expense	<u>(5,569,497)</u>	<u>(6,037,045)</u>	<u>(4,343,964)</u>	<u>(5,978,430)</u>	<u>(7,905,796)</u>	<u>(6,986,723)</u>	<u>(8,285,417)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS							
Governmental activities:							
Taxes:							
Property - general purposes	1,994,728	2,249,922	2,447,610	2,657,106	2,913,521	3,131,702	3,382,272
Property - debt service	545,552	540,467	448,663	437,146	476,117	527,921	536,671
Sales	3,217,670	3,538,100	3,654,232	4,101,973	4,351,269	4,745,309	4,622,690
Franchise	934,965	1,209,036	1,264,298	1,423,615	1,370,838	1,169,858	1,186,650
Other	208,534	262,467	292,447	312,528	388,013	434,498	372,815
Investment earnings	196,542	87,990	286,301	441,986	623,810	454,269	108,218
Miscellaneous	33,971	12,158	54,068	34,663	75,994	17,186	124,613
Transfers	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>	<u>(116,979)</u>	<u>(215,921)</u>	<u>(104,871)</u>	<u>6,771</u>
Total governmental activities	<u>7,447,600</u>	<u>7,900,140</u>	<u>8,397,619</u>	<u>9,292,038</u>	<u>9,983,641</u>	<u>10,375,872</u>	<u>10,340,700</u>
Business-type activities:							
Investment earnings	105,970	100,773	305,559	518,164	876,642	469,667	68,079
Miscellaneous	9,137	26,429	-	32,037	-	-	7,888
Transfers	<u>(315,638)</u>	<u>-</u>	<u>50,000</u>	<u>116,979</u>	<u>215,921</u>	<u>104,871</u>	<u>(6,771)</u>
Total business-type activities	<u>(200,531)</u>	<u>127,202</u>	<u>355,559</u>	<u>667,180</u>	<u>1,092,563</u>	<u>574,538</u>	<u>69,196</u>
Total general revenues and other changes in net assets	<u>7,247,069</u>	<u>8,027,342</u>	<u>8,753,178</u>	<u>9,959,218</u>	<u>11,076,204</u>	<u>10,950,410</u>	<u>10,409,896</u>
CHANGE IN NET ASSETS							
Governmental activities	768,375	1,074,599	1,236,929	1,438,936	1,402,442	1,316,263	1,085,200
Business-type activities	<u>909,197</u>	<u>915,698</u>	<u>3,172,285</u>	<u>2,541,852</u>	<u>1,767,966</u>	<u>2,647,424</u>	<u>1,039,279</u>
Total change in net assets	<u>\$ 1,677,572</u>	<u>\$ 1,990,297</u>	<u>\$ 4,409,214</u>	<u>\$ 3,980,788</u>	<u>\$ 3,170,408</u>	<u>\$ 3,963,687</u>	<u>\$ 2,124,479</u>

Note:

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF STEPHENVILLE, TEXAS

**FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General fund										
Reserved	\$ -	\$ -	\$ -	\$ 7,178	\$ 4,072	\$ 13,349	\$ 10,352	\$ 15,224	\$ 8,653	\$ 12,680
Unreserved	<u>5,499,615</u>	<u>5,958,100</u>	<u>6,429,861</u>	<u>7,309,934</u>	<u>8,017,965</u>	<u>8,361,416</u>	<u>9,045,429</u>	<u>10,039,416</u>	<u>9,555,553</u>	<u>7,358,831</u>
Total general fund	<u>\$ 5,499,615</u>	<u>\$ 5,958,100</u>	<u>\$ 6,429,861</u>	<u>\$ 7,317,112</u>	<u>\$ 8,022,037</u>	<u>\$ 8,374,765</u>	<u>\$ 9,055,781</u>	<u>\$ 10,054,640</u>	<u>\$ 9,564,206</u>	<u>\$ 7,371,511</u>
All other governmental funds										
Reserved										
Debt service funds	\$ 12,873	\$ 24,139	\$ 30,337	\$ 41,081	\$ 41,285	\$ 50,563	\$ 69,443	\$ 82,233	\$ 89,253	\$ 96,071
Unreserved, reported in:										
Special revenue funds	186,653	232,461	207,743	237,911	211,765	247,743	318,028	280,798	350,750	332,799
Capital projects funds	<u>2,122,160</u>	<u>1,109,119</u>	<u>895,894</u>	<u>772,431</u>	<u>735,191</u>	<u>1,063,030</u>	<u>1,051,972</u>	<u>1,069,303</u>	<u>2,429,680</u>	<u>1,676,876</u>
Total all other governmental funds	<u>\$ 2,321,686</u>	<u>\$ 1,365,719</u>	<u>\$ 1,133,974</u>	<u>\$ 1,051,423</u>	<u>\$ 988,241</u>	<u>\$ 1,361,336</u>	<u>\$ 1,439,443</u>	<u>\$ 1,432,334</u>	<u>\$ 2,869,683</u>	<u>\$ 2,105,746</u>

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUES										
Taxes	\$ 6,418,350	\$ 6,689,180	\$ 7,067,904	\$ 6,891,072	\$ 7,804,900	\$ 8,103,134	\$ 8,942,235	\$ 9,506,528	\$ 10,004,265	\$ 10,104,779
Special assessments	664,688	-	55,415	-	-	402,789	28,122	-	-	-
Licenses, fees and permits	88,671	64,408	86,583	84,669	168,519	168,523	183,839	164,071	275,887	131,341
Fines and forfeitures	169,085	168,271	135,897	248,426	229,922	207,407	279,716	353,889	361,027	226,083
Intergovernmental	669,130	207,050	242,187	249,564	306,510	104,228	188,096	111,889	87,730	124,581
Service charges	367,715	408,757	523,825	545,763	697,355	651,021	640,935	738,526	839,684	948,049
Investment earnings	445,529	406,277	275,793	194,772	87,991	286,300	441,986	623,810	454,269	108,218
Miscellaneous	29,767	68,242	61,705	125,027	52,734	108,222	60,110	119,731	19,734	35,189
Total revenues	<u>8,852,935</u>	<u>8,012,185</u>	<u>8,449,309</u>	<u>8,339,293</u>	<u>9,347,931</u>	<u>10,031,624</u>	<u>10,765,039</u>	<u>11,618,444</u>	<u>12,042,596</u>	<u>11,678,240</u>
EXPENDITURES										
General government	947,835	942,036	1,091,746	1,113,323	1,274,807	1,231,709	1,349,248	1,491,202	1,293,925	1,355,822
Public safety	3,146,946	3,325,599	3,603,448	3,821,859	3,874,454	4,140,738	4,562,217	4,955,771	5,459,268	5,827,418
Streets	562,728	588,038	620,714	561,646	630,057	578,126	699,290	735,614	824,764	845,429
Culture and recreation	1,081,294	1,243,096	1,294,316	1,357,624	1,336,974	1,412,305	1,466,261	1,518,938	1,931,846	2,006,999
Community development	182,517	236,431	250,776	317,743	295,036	346,969	337,659	375,614	394,833	407,208
Debt service										
Principal	429,391	430,000	450,000	470,000	500,000	420,000	430,000	455,000	475,000	425,000
Interest	225,283	200,415	178,813	157,032	133,441	111,582	91,817	71,105	49,195	99,652
Bond issuance costs	-	-	-	-	-	-	-	-	12,725	25,000
Capital outlay	2,184,074	1,667,368	868,370	366,753	661,419	1,014,372	952,446	807,528	1,902,168	5,265,493
Total expenditures	<u>8,760,068</u>	<u>8,632,983</u>	<u>8,358,183</u>	<u>8,165,980</u>	<u>8,706,188</u>	<u>9,255,801</u>	<u>9,888,938</u>	<u>10,410,772</u>	<u>12,343,724</u>	<u>16,258,021</u>

(continued)

CITY OF STEPHENVILLE, TEXAS

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 92,867	\$ (620,798)	\$ 91,126	\$ 173,313	\$ 641,743	\$ 775,823	\$ 876,101	\$ 1,207,672	\$ (301,128)	\$ (4,579,781)
OTHER FINANCING SOURCES (USES)										
Issuance of bonds	-	-	-	-	-	-	-	-	1,325,000	1,500,000
Proceeds from sale of capital assets	26,449	-	-	-	-	-	-	-	27,914	21,881
Proceeds from insurance	-	-	-	-	-	-	-	-	-	94,497
Transfers in	800,449	448,316	251,085	423,414	90,000	90,000	94,500	55,000	207,629	2,461,037
Transfers out	(656,348)	(325,000)	(102,195)	(107,776)	(90,000)	(140,000)	(211,479)	(270,921)	(312,500)	(2,454,266)
Total other financing sources (uses)	170,550	123,316	148,890	315,638	-	(50,000)	(116,979)	(215,921)	1,248,043	1,623,149
NET CHANGE IN FUND BALANCES	\$ 263,417	\$ (497,482)	\$ 240,016	\$ 488,951	\$ 641,743	\$ 725,823	\$ 759,122	\$ 991,751	\$ 946,915	\$ (2,956,632)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	11.1%	10.0%	9.2%	8.7%	8.5%	6.9%	6.2%	5.8%	5.3%	5.0%

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
2000	\$ 258,328,927	\$ 282,242,502	\$ 117,284,814	\$ 194,131,922	\$ 463,724,321	\$0.4724	\$ 473,188,083
2001	275,008,292	277,180,795	110,482,050	192,478,165	470,192,972	0.4724	479,788,747
2002	277,642,872	302,960,725	97,250,070	189,978,791	487,874,876	0.4800	497,831,506
2003	300,285,040	341,944,306	97,673,680	221,495,172	518,407,854	0.4850	528,987,606
2004	332,268,337	380,965,905	111,273,080	249,575,629	574,931,693	0.4850	586,664,993
2005	352,795,683	386,744,845	105,901,750	253,232,383	592,209,895	0.4850	604,295,811
2006	387,312,400	403,019,380	113,971,870	260,321,554	643,982,096	0.4750	657,124,588
2007	436,191,340	446,012,320	124,665,270	287,207,489	719,661,441	0.4650	734,348,409
2008	473,515,020	493,287,390	139,045,430	287,501,749	818,346,091	0.4450	835,047,032
2009	530,504,500	521,967,390	134,864,860	296,981,931	890,354,819	0.4350	908,525,326

Source: Erath County Appraisal District.

Note: Property in Erath County is reassessed once every three years on average. The County assesses property at approximately 98 percent of actual value for commercial, industrial and residential property. Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

TABLE 6

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates			Total Direct and Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Stephenville School District	Middle Trinity Water District	Erath County	
2000	\$0.3359	\$0.1365	\$0.4724	\$1.4500	-	\$0.4785	\$2.4009
2001	0.3552	0.1172	0.4724	1.7500	-	0.4785	2.7009
2002	0.3678	0.1122	0.4800	0.1690	-	0.4785	1.1275
2003	0.3812	0.1038	0.4850	1.6900	\$0.0150	0.4700	2.6600
2004	0.3913	0.0937	0.4850	1.6700	0.0150	0.4512	2.6212
2005	0.4107	0.0743	0.4850	1.6700	0.0150	0.4625	2.6325
2006	0.4079	0.0671	0.4750	1.6600	0.0150	0.4410	2.5910
2007	0.3996	0.0654	0.4650	1.5199	0.0150	0.4352	2.4351
2008	0.3811	0.0639	0.4450	1.1920	0.0150	0.4187	2.0707
2009	0.3762	0.0588	0.4350	1.1470	0.0150	0.3915	1.9885

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.

TABLE 7

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2009		2000	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
FMC Company	\$ 39,748,826	4.46%	\$ 18,056,084	3.81%
Saint Gobain Abrasives	10,151,297	1.14%	17,790,885	3.76%
Stephenville Campus Crest	9,416,720	1.06%	-	- %
Bosque River Associates	8,837,900	0.99%	8,533,480	1.80%
Oncor Electric Delivery	8,040,210	0.90%	6,620,570	1.40%
Stephenville Student Housing LP	7,260,800	0.82%	-	- %
Wal-Mart Stores, Inc. #1	7,727,270	0.87%	6,919,940	1.46%
Saint Gobain Abrasives	6,580,480	0.74%	-	- %
United Telephone Company (Embarq)	6,474,050	0.73%	5,129,190	1.08%
Seam Mac Tube LLC	-	- %	4,285,960	0.91%
Wilmington Trust (Wal-Mart #2)	6,351,350	0.71%	6,748,260	1.43%
Rayloc Genaut	-	- %	4,253,678	0.90%
Emerson Electric Company	-	- %	8,325,650	1.76%
Subtotal	\$ 110,588,903	12.42%	\$ 86,663,697	18.31%
Remaining Roll	<u>779,765,916</u>	<u>87.58%</u>	<u>377,060,624</u>	<u>81.69%</u>
Total	<u>\$ 890,354,819</u>	<u>100.00%</u>	<u>\$ 463,724,321</u>	<u>100.00%</u>

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 Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		O/S as of 09/30/09
		Amount	Percentage of Levy		Amount	Percentage of Levy	
2000	\$ 2,185,007	\$ 2,143,729	98.11%	\$ 37,445	\$ 2,181,174	99.82%	\$ 2,679
2001	2,236,217	2,192,628	98.05%	39,342	2,231,970	99.81%	2,363
2002	2,348,927	2,294,810	97.70%	50,076	2,344,886	99.83%	6,459
2003	2,513,625	2,462,155	97.95%	43,404	2,505,559	99.68%	3,888
2004	2,788,419	2,726,244	97.77%	56,290	2,782,534	99.79%	4,863
2005	2,832,529	2,808,747	99.16%	16,188	2,824,935	99.73%	5,059
2006	3,066,225	3,018,008	98.43%	40,723	3,058,731	99.76%	10,608
2007	3,344,539	3,307,083	98.88%	22,447	3,329,530	99.55%	15,697
2008	3,641,808	3,602,598	98.92%	29,172	3,631,770	99.72%	45,287
2009	3,874,843	3,822,492	98.65%	-	3,822,492	98.65%	52,351

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

TABLE 9

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

Fiscal Year	Governmental Activities			Business-type Activities				Total	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Participation	Term Loan	Water Revenue Bonds	Term Loan	Certificates of Participation	Capital Leases			
2000	\$ 2,630,000	\$ 1,665,000	\$ 20,887	\$ 9,920,000	\$ -	\$ -	\$ -	\$ 14,235,887	4.36%	\$ 968
2001	2,310,000	1,555,000	-	14,455,000	-	-	-	18,320,000	5.21%	1,228
2002	1,970,000	1,445,000	-	13,455,000	-	1,150,000	-	18,020,000	5.03%	1,201
2003	1,615,000	1,330,000	-	6,660,000	-	7,905,000	-	17,510,000	4.79%	1,118
2004	1,235,000	1,210,000	-	6,295,000	-	14,174,233	-	22,914,233	5.70%	1,443
2005	945,000	1,080,000	-	5,910,000	-	13,250,233	-	21,185,233	5.80%	1,300
2006	645,000	950,000	-	5,500,000	-	14,305,233	259,184	21,659,417	N/A	1,283
2007	330,000	810,000	-	5,210,000	-	17,660,134	219,920	24,230,054	N/A	1,421
2008	1,325,000	665,000	-	4,905,000	-	20,644,155	177,337	27,716,492	N/A	1,590
2009	2,550,000	515,000	-	4,585,000	-	19,456,865	499,724	27,606,589	N/A	1,538

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

The City issued over \$5 million of new certificates of participation in 2008.

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

TABLE 10

CITY OF STEPHENVILLE, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligations	Total		
2000	\$ 2,630,000	\$ 1,685,887	\$ 4,315,887	0.93%	\$ 294
2001	2,310,000	1,555,000	\$ 3,865,000	0.82%	259
2002	1,970,000	1,445,000	\$ 3,415,000	0.70%	228
2003	1,615,000	1,330,000	\$ 2,945,000	0.57%	188
2004	1,235,000	1,210,000	\$ 2,445,000	0.43%	154
2005	945,000	1,080,000	\$ 2,025,000	0.34%	124
2006	645,000	950,000	\$ 1,595,000	0.25%	94
2007	330,000	810,000	\$ 1,140,000	0.16%	67
2008	1,325,000	665,000	\$ 1,990,000	0.24%	114
2009	2,550,000	515,000	\$ 3,065,000	0.34%	171

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, 2009

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes Stephenville Independent School District	\$ 10,745,524	68.35%	\$ 7,344,566
City direct debt			<u>3,065,000</u>
Total direct and overlapping debt			<u>\$ 10,409,566</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 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 2009

Taxable assessed valuation	\$	890,354,819	
Constitutional tax rate limit		2.50% of assessed valuation	
Maximum constitutional revenue available	\$	22,258,870	
Tax rate to achieve maximum tax revenue		\$2.50 per \$100 of valuation	
Tax rate for FY 2008-2009		\$0.435 per \$100 of valuation	
Available unused constitutional max tax rate		\$2.065 per \$100 of valuation	
Debt applicable to limit:			
General obligation debt	\$	1,990,000	

DEBT TAX RATE ADEQUACY

2009 Principal and Interest Requirements	\$	601,996
\$0.0689 Tax Rate at 98% Collection Produces		601,185
Average Annual Principal and Interest Requirement, 2010-2019.....		370,423
\$0.0424 Tax Rate at 98% Collection Produces		369,960
Maximum Principal and Interest Requirements		601,996
\$0.0689 Tax Rate at 98% Collection Produces		601,185

DEBT SERVICE FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2009		\$	601,996
Debt Service Fund, 9-30-08	\$	89,253	
Debt Service Fund Tax Levy @ 98% Collection		<u>601,185</u>	<u>\$ 690,438</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	
2000	\$ 4,664,232	\$ 3,906,752	\$ 757,480	\$ 1,045,000	\$ 500,290	0.49
2001	4,743,061	2,621,741	2,121,320	965,000	465,568	1.48
2002	4,578,747	2,459,300	2,119,447	1,000,000	641,944	1.29
2003	4,372,612	2,321,847	2,050,765	1,145,000	642,281	1.15
2004	4,556,045	2,569,643	1,986,402	1,240,000	559,001	1.10
2005	5,511,586	2,553,909	2,957,677	1,331,000	712,056	1.45
2006	5,628,658	2,931,743	2,696,915	1,355,000	752,077	1.28
2007	5,092,578	2,946,356	2,146,222	1,220,000	819,654	1.05
2008	5,469,932	2,851,562	2,618,370	1,290,000	650,238	1.35
2009	5,492,233	3,060,691	2,431,542	1,340,000	652,120	1.22

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

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

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>College Enrollment</u>	<u>Unemployment Rate</u>
2000	14,700	\$ 326,736,900	\$ 22,227	3,361	6,359	2.7%
2001	14,921	351,419,392	23,552	3,477	6,549	2.0%
2002	15,000	355,515,000	23,701	3,444	6,827	3.3%
2003	15,665	359,402,095	22,943	3,530	7,197	3.2%
2004	15,884	382,010,200	24,050	3,417	7,347	2.7%
2005	16,300	417,720,100	25,627	3,512	7,589	3.9%
2006	16,882	438,003,490	25,945	3,550	7,776	3.9%
2007	17,050	N/A	N/A	3,521	7,840	3.8%
2008	17,428	N/A	N/A	3,496	7,763	4.0%
2009	17,950	N/A	N/A	3,553	8,956	7.1%

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

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

Personal income is not available for 2007 - 2009.

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2009	
	Employees	Percentage of Total City Employment
Tarleton State University	1,051	5.90%
FMC Company	510	2.86%
Saint Gobain Abrasives	470	2.64%
Stephenville Independent School District	440	2.47%
Wal-Mart Stores, Inc.	448	2.51%
Scheiber Foods	446	2.50%
Harris Methodist Erath County Hospital	300	1.68%
Western Dairy Transport	200	1.12%
Outlaw Conversions	110	0.62%
Erath County	175	0.98%
United Cooperative Services	152	0.85%
Emerson Electric Company	150	0.84%
Stephenville Medical & Surgical Clinic	125	0.70%
Caporal Forging	49	0.28%
Fibergrate Composite Structures	127	0.71%
Associated Milk Producers	110	0.62%
Bruner Motors	101	0.57%
Southwestern Linen	36	0.20%
Texstar Ford	35	0.20%
USTRA	18	0.10%
Subtotal	5,053	28.37%
Remaining employers	12,761	71.63%
Total	17,814	100.00%

Source:

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

Notes:

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

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,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government										
Management services	4	4	4	4	4	4	4	4	4	4
Finance	7	6	6	7	7	7	7	7	7	7
Planning	1	2	2	2	2	2	2	2	2	2
Building	1	1	1	1	1	1	2	2	2	2
Other	1	1	1	1	1	1	1	1	1	1
Police										
Officers	30	30	30	30	31	31	31	34	38	38
Civilians	10	10	11	11	11	13	13	12	12	12
Fire										
Firefighters and officers	23	23	26	26	26	26	27	28	31	31
Parks and recreation	9	11	11	13	13	13	13	13	13	13
Library	4	4	4	4	4	4	4	3	3	3
Streets	7	7	7	7	7	7	7	7	7	7
Water	8	9	9	9	9	9	10	13	13	13
Wastewater	7	8	8	8	8	8	8	5	5	5
Landfill	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u>114</u>	<u>118</u>	<u>122</u>	<u>125</u>	<u>126</u>	<u>128</u>	<u>131</u>	<u>133</u>	<u>140</u>	<u>140</u>

Source: City Human Resource Office

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

TABLE 17

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

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government										
Building permits issued	242	265	234	222	140	172	125	153	135	109
Building permits value	\$14,721,989	\$5,563,166	\$12,118,416	\$10,467,400	\$21,515,373	\$18,442,334	\$12,262,542	\$16,144,842	\$27,821,098	\$11,978,341
Police										
Calls for service	9,138	9,114	10,207	10,203	10,483	10,358	11,234	19,732	11,739	12,730
Physical arrests	1,019	716	762	1,134	825	959	999	1,447	1,023	953
Parking violations	182	805	404	530	324	386	334	498	171	206
Traffic violations	3,178	4,501	3,164	5,094	5,350	3,588	3,066	4,469	2,473	1,634
Fire										
Ambulance responses	1,271	1,321	1,468	1,372	1,183	1,291	1,255	1,537	1,472	1,502
Fires extinguished	376	357	412	339	185	235	305	235	219	230
Inspections	150	149	149	135	132	109	105	313	280	326
Other public works										
Street resurfacing (miles)	1.30	1.88	2.35	2.39	1.35	1.14	1.52	2.70	2.23	2.68
Library										
Volumes in collection	43,065	41,905	40,161	43,331	46,938	48,548	47,510	43,737	43,827	44,200
Total volumes borrowed	120	130	237	110	138	155	114	116	94	227
Water										
New connections	5,256	5,319	5,319	5,242	5,521	5,253	5,550	5,660	5,670	5,700
Water main breaks	47	53	52	49	54	50	48	49	44	61
Average daily consumption (thousands of gallons)	2,482,000	2,341,000	2,158,000	2,124,000	1,971,990	2,042,000	2,254,000	1,828,000	2,080,000	2,004,000
Peak daily consumption (thousands of gallons)	4,700,000	4,549,000	4,174,000	4,133,000	3,598,000	3,499,000	4,397,000	3,091,000	3,848,000	3,663
Wastewater										
Average daily sewage treatment (thousands of gallons)	1,253,000	1,387,000	1,311,000	1,354,000	1,456,000	1,334,000	1,414,000	1,691,000	1,548,000	1,518,000

Source: Various City departments

TABLE 18

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

Function/Program	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	6	9	9	10	10	10	10	10	10	10
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Other public works										
Streets (miles)	87	87	87	92	92	92	92	96	96	96
Highways (miles)	19	19	19	19	19	19	19	21	21	21
Streetlights	983	992	992	1,013	1,013	1,013	1,013	1,070	1,080	1,096
Parks and recreation										
Acreage	126	126	134	134	134	134	134	134	130	130
Playgrounds	3	3	4	4	4	4	4	4	4	4
Baseball/softball diamonds	9	9	9	9	9	9	9	9	9	9
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	58	58	112	116	117	117	120	122	124	125
Fire hydrants	616	623	623	650	670	670	680	732	747	735
Storage capacity (thousands of gallons)	4,500,000	4,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,750,000	5,750,000
Wastewater										
Sanitary sewers (miles)	68	68	96	105	105	110	110	113	114	115
Storm sewers (miles)	10	10	10	10	10	10	10	10	10.5	10.5
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

THIS PAGE LEFT BLANK INTENTIONALLY

SINGLE AUDIT SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, (the “City”) as of and for the year ended September 30, 2009, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

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

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

Compliance and Other Matters

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

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

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

January 27, 2010



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

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

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

Compliance

We have audited the compliance of the City of Stephenville, Texas, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City of Stephenville, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City of Stephenville, Texas' management. Our responsibility is to express an opinion on the City of Stephenville, Texas' compliance based on our audit.

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

In our opinion, the City of Stephenville, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

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

January 27, 2010

CITY OF STEPHENVILLE, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Transportation</u>			
Passed through the Texas Department of Transportation:			
Airport Terminal Project-2008	20.106	08TBSTVLE	\$ 205,878
Ollie-Mary Local Transportation Project	20.205	STP 2007(843)	<u>740,974</u>
Total Passed through the Texas Department of Transportation			<u>946,852</u>
Total U. S. Department of Transportation			<u>946,852</u>
Total Expenditures of Federal Awards			<u>\$ 946,852</u>

The accompanying notes are an integral part of this schedule.

CITY OF STEPHENVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

CITY OF STEPHENVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Summary of Auditors' Results

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major program	Unqualified
Findings and questioned costs for federal awards as defined in OMB Circular A-133	None
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The City was not classified as a low-risk auditee in the context of OMB Circular A-133.
Major federal programs	Airport Terminal Project - 2008 CFDA #20.106 Ollie-Mary Local Transportation Project CFDA #20.205

**Findings Relating to the Financial Statements Which
Are Required to be Reported in Accordance with
Government Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

CITY OF STEPHENVILLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

None