

CITY OF FREDERICKSBURG
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2010

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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Independent Auditor's Report

City Council
City of Fredericksburg, Texas
126 West Main
Fredericksburg Texas 78624

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other Required Supplementary Information such as budgetary comparison information presented on pages 3 through 10 and page 51 are not a required part of the basic financial statements but are 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28,

2010, on our consideration of the City's internal control over financial reporting and 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Fredericksburg, Texas's basic financial statements.

Klein, Kraus and Company, LLC

Klein, Kraus and Company, LLC

December 28, 2010

Management's Discussion and Analysis

As management of the City of Fredericksburg, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2010, by \$42,809,978 (net assets). Of this amount, \$16,181,482 (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 \$487,224.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,926,067. Approximately 97 percent of the total amount, \$5,753,199 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2010, unreserved fund balance for the General Fund was \$5,753,199 or 60 percent of the current year's total General Fund expenditures of \$9,646,226.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations.

The government-wide financial statements can be found on pages 11 – 13 of this report.

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

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

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 14 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be the major fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for electric, water, wastewater, storm water drainage, solid waste, emergency medical services, and golf operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for the employee health insurance program. The internal service function has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 – 25 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 – 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$42,809,978 as of September 30, 2010, compared to \$42,322,753 as of September 30, 2009.

CITY OF FREDERICKSBURG’S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Current and other assets	\$ 7,259,103	\$ 7,606,573	\$ 12,187,771	\$ 14,531,821	\$ 19,446,877	\$ 22,138,394
Capital assets	<u>16,321,075</u>	<u>15,559,287</u>	<u>27,894,384</u>	<u>26,872,095</u>	<u>44,215,459</u>	<u>42,431,382</u>
Total assets	<u>23,580,181</u>	<u>23,165,860</u>	<u>40,082,155</u>	<u>41,403,916</u>	<u>63,662,336</u>	<u>64,659,776</u>
Current liabilities	1,246,290	1,205,512	2,939,238	4,751,400	4,185,528	5,956,912
Noncurrent liabilities	<u>4,341,051</u>	<u>4,221,600</u>	<u>12,813,007</u>	<u>11,581,286</u>	<u>17,154,058</u>	<u>15,802,886</u>
Total liabilities	<u>5,587,341</u>	<u>5,427,112</u>	<u>15,752,245</u>	<u>16,332,686</u>	<u>21,339,586</u>	<u>21,759,798</u>
Net Assets:						
Invested in capital assets, Net of related debt	11,670,434	12,091,320	15,081,377	11,810,047	26,751,811	23,901,367
Restricted	-	-	-	-	-	-
Unrestricted	<u>6,322,407</u>	<u>6,889,355</u>	<u>9,248,535</u>	<u>11,148,398</u>	<u>15,570,942</u>	<u>18,037,753</u>
Total net assets	<u>\$ 17,992,840</u>	<u>\$ 17,738,748</u>	<u>\$ 24,329,912</u>	<u>\$ 25,071,230</u>	<u>\$ 42,322,753</u>	<u>\$ 42,809,978</u>

By far the largest portion of the City’s net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$15,570,942 may be used to meet the government’s ongoing obligations to citizens and creditors.

City of Fredericksburg
Statement of Activities
For Fiscal Years 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for Services	\$ 707,829	\$ 742,605	\$ 18,540,002	\$ 20,753,458	\$ 19,247,831	\$ 21,496,063
Operating Grants and Contributions	340,017	596,905	-	-	340,017	596,905
General Revenues:						
Property Taxes	2,681,736	2,723,317	398,120	-	3,079,856	2,723,317
Sales Taxes	3,701,322	3,660,650	-	-	3,701,322	3,660,650
Hotel Occupancy Taxes	1,702,381	458,438	-	-	1,702,381	458,438
Other Taxes	585,615	1,637,522	-	-	585,615	1,637,522
Miscellaneous Revenue	85,054	75,989	1,900,812	384,420	1,985,866	460,409
Investments Earnings	46,944	36,663	44,846	150,179	91,790	186,842
Total Revenues	<u>\$ 9,850,898</u>	<u>\$ 9,932,089</u>	<u>\$ 20,883,780</u>	<u>\$ 21,288,057</u>	<u>\$ 30,734,678</u>	<u>\$ 31,220,146</u>
Expenses						
Administrative	\$ 3,222,431	\$ 3,054,924	-	-	\$ 3,222,431	\$ 3,054,924
Police	3,373,089	2,995,771	-	-	3,373,089	2,995,771
Fire	728,110	655,528	-	-	728,110	655,528
Streets	1,956,321	2,255,955	-	-	1,956,321	2,255,955
Parks	1,252,897	2,169,795	-	-	1,252,897	2,169,795
Health	130,518	76,758	-	-	130,518	76,758
Emergency Management	67,940	84,050	-	-	67,940	84,050
Electric	-	-	\$ 11,262,905	\$ 10,820,712	11,262,905	10,820,712
Water and Sewer	-	-	3,223,018	3,262,748	3,223,018	3,262,748
Golf	-	-	1,358,499	1,441,090	1,358,499	1,441,090
Landfill	-	-	1,706,221	1,443,660	1,706,221	1,443,660
EMS	-	-	1,564,853	1,576,752	1,564,853	1,576,752
Drainage Utilities	-	-	282,133	303,328	282,133	303,328
Total Expenses	<u>\$ 10,731,306</u>	<u>\$ 11,292,781</u>	<u>\$ 19,397,629</u>	<u>\$ 18,848,290</u>	<u>\$ 30,128,936</u>	<u>\$ 30,141,071</u>
Increase (decrease) in Net Assets Before Transfers	<u>\$ (880,408)</u>	<u>\$ (1,360,692)</u>	<u>\$ 1,486,151</u>	<u>\$ 2,439,767</u>	<u>\$ 605,742</u>	<u>\$ 1,079,075</u>
Transfers	<u>626,315</u>	<u>1,068,300</u>	<u>(744,833)</u>	<u>(1,068,300)</u>	<u>(118,518)</u>	<u>-</u>
Change in Net Assets	<u>\$ (254,093)</u>	<u>\$ (292,392)</u>	<u>\$ 741,318</u>	<u>\$ 1,371,467</u>	<u>\$ 487,224</u>	<u>\$ 1,079,075</u>
Net Assets, Beginning	<u>\$ 17,992,841</u>	<u>\$ 18,980,675</u>	<u>\$ 24,329,912</u>	<u>\$ 22,958,445</u>	<u>\$ 42,322,753</u>	<u>\$ 41,939,120</u>
Prior Period Adjustment	<u>-</u>	<u>(695,442)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(695,442)</u>
Net Assets, Beginning	<u>\$ 17,992,841</u>	<u>\$ 18,285,233</u>	<u>\$ 24,329,912</u>	<u>\$ 22,958,445</u>	<u>\$ 42,322,753</u>	<u>\$ 41,243,678</u>
Net Assets, Ending	<u>\$ 17,738,748</u>	<u>\$ 17,992,841</u>	<u>\$ 25,071,230</u>	<u>\$ 24,329,912</u>	<u>\$ 42,809,977</u>	<u>\$ 42,322,753</u>

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

As a whole, the government's net assets increased by \$487,224 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,926,067. Approximately 97 percent of this total amount, \$5,753,199 constitutes unreserved fund balance. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City and represents approximately 97 percent of the total governmental fund balance. The total fund balance of the General Fund was unreserved and amounted to \$5,753,199.

The fund balance of the City's General Fund increased by \$4,568 during the current fiscal year.

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 \$9,780,421. Net assets of the City's Enterprise Funds increased by \$741,318 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2010, amounts to \$42,431,382 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

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

• Police (5) Vehicles	125,000
• Park (2) Restrooms	93,000
• Park Tennis Court Improvements	50,000
• Parks/Golf Shared Backhoe	74,000
• Street Crack Sealing Machine	40,000
• Water & Sewer Improvements (2008 Tax Lmted. Notes)	
- East Side Sewer	280,000
• Trailer Mounted Sewer Cleaner	50,000
• Landfill Cell #5 Development	35,000
• Landfill Motor Grader	134,000
• Landfill (2) Garbage Trucks	216,000
	<u>\$1,097,000</u>

Additional information on the City's capital assets can be found on pages 38 – 39 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$13,150,000. The entire amount is debt backed in full faith and credit of the City.

The City carries bond ratings from Standard and Poor's of AA- and from Moody's Investors Service of Aa3.

Current Year Refunding

On March 16, 2010, the City of Fredericksburg issued \$6,070,000 of General Obligation Refunding Bonds, Series 2010. The proceeds from this issue were used to retire or refinance portions of the following bond issues:

- 1998 Certificates of Obligation
- 1998 General Obligation Refunding Bonds
- 2004 General Obligation Bonds

The interest rates on the old refunded debt ranged from 3.13% - 4.40% per annum. The new refunding issues rates ranged from 1.00% to 3.00%. The estimated present value savings amounted to \$338,010.

Additional information on the City's long term-debt can be found in pages 43 – 45 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2010, the adopted property tax rate decreased from \$.2350 to \$.2319 per \$100 of assessed valuation. Even though the tax rate was lowered, the taxes levied increased by \$48,518 to \$3,050,545. The increase in taxes was due to an increase in the appraised value of existing property and the addition of new property to the tax roll.

Tax Rate, Levy and Collection History

Fiscal Year Ended September 30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levv	% Current Collections	% Total Collections
2010	0.2319	0.1413	0.0906	3,050,545	91.78%	100.19%
2009	0.2350	0.1608	0.0742	3,002,027	92.39%	100.87%
2008	0.2414	0.1606	0.0808	2,760,539	91.76%	100.28%
2007	0.2566	0.1636	0.0930	2,574,997	92.48%	101.04%
2006	0.2596	0.1557	0.1039	2,353,435	93.16%	100.70%
2005	0.2820	0.1681	0.1139	2,314,321	92.15%	100.45%
2004	0.2567	0.1955	0.0612	1,926,198	92.44%	101.28%
2003	0.2370	0.1764	0.0606	1,610,865	93.16%	102.09%
2002	0.2505	0.1939	0.0566	1,501,757	92.02%	100.71%
2001	0.2651	0.2063	0.0588	1,453,310	91.38%	99.54%

**City of Fredericksburg
Budget Comparison
For Fiscal Years 2011 and 2010**

	2010-2011 <u>Budget</u>	2009-2010 <u>Budget</u>	Increase <u>(Decrease)</u>	% Increase <u>(Decrease)</u>
Revenues				
General Fund	\$ 10,252,100	\$ 10,135,500	\$ 116,600	1.15%
Electric	11,951,000	12,274,000	(323,000)	-2.63%
Water & Sewer	4,391,000	4,209,600	181,400	4.31%
Golf	1,220,500	1,367,200	(146,700)	-10.73%
Landfill	1,728,400	1,600,000	128,400	8.03%
EMS	1,663,700	1,595,900	67,800	4.25%
Drainage	335,800	374,400	(38,600)	-10.31%
Emergency Management	67,200	62,200	5,000	8.04%
Debt Service	<u>514,200</u>	<u>634,200</u>	<u>(120,000)</u>	<u>-18.92%</u>
Total Revenues	\$ 32,123,900	\$ 32,253,000	\$ (129,100)	-0.40%
Expenditures				
General Fund				
Administrative	\$ 3,436,700	\$ 3,195,600	\$ 241,100	7.54%
Police	3,261,400	3,284,600	(23,200)	-0.71%
Fire	757,900	745,600	12,300	1.65%
Street	2,727,700	2,545,200	182,500	7.17%
Park	1,003,500	1,187,700	(184,200)	-15.51%
Health	<u>137,300</u>	<u>132,200</u>	<u>5,100</u>	<u>3.86%</u>
	\$ 11,324,500	\$ 11,090,900	\$ 233,600	2.11%
Electric	11,649,400	12,073,900	(424,500)	-3.52%
Water & Sewer	4,384,600	4,110,000	274,600	6.68%
Golf	1,425,600	1,366,800	58,800	4.30%
Landfill	2,510,200	1,719,400	790,800	45.99%
EMS	1,663,700	1,595,900	67,800	4.25%
Drainage	461,600	371,200	90,400	24.35%
Emergency Management	67,100	62,100	5,000	8.05%
Debt Service	<u>618,900</u>	<u>633,900</u>	<u>(15,000)</u>	<u>-2.37%</u>
Total Expenditures	\$ 34,105,600	\$ 33,024,100	\$ 1,081,500	3.27%
Budgeted Revenues in Excess (Deficiency) of Expenditures	<u>\$ (1,981,700)</u>	<u>\$ (771,100)</u>	<u>\$ (1,210,600)</u>	

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 Brad Kott, Director of Finance, 126 West Main, Fredericksburg, Texas 78624 or call (830) 997-7521.

BASIC FINANCIAL STATEMENTS

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City of Fredericksburg, Texas
Statement of Net Assets
September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Convention & Visitors Bureau
ASSETS				
Cash and Cash Equivalents	\$ 2,801,836	\$ 5,638,712	\$ 8,440,548	\$ 312,938
Investments - Current	3,240,000	3,200,000	6,440,000	
Tax Receivables (Net of Allowance)	506,864		506,864	
Internal Balances	158,851	2,352,014	2,510,865	
Intergovernmental Receivable	687,428	250,000	937,428	
Due from Others	211,593	2,154,350	2,365,943	25
Inventory		936,745	936,745	
Note Receivable			-	
Property and Equipment, Net of Depreciation				
Land	2,965,385	1,089,608	4,054,993	
Buildings	7,327,731	6,608,362	13,936,093	
Improvements	13,230,290	40,117,344	53,347,634	
Machinery & Equipment	7,282,026	8,704,409	15,986,435	82,119
Less: Accumulated Depreciation	(15,246,145)	(29,647,628)	(44,893,773)	(44,008)
Total Assets	<u>\$ 23,165,860</u>	<u>\$ 41,403,916</u>	<u>\$ 64,569,776</u>	<u>\$ 351,074</u>
LIABILITIES				
Accounts Payable	798,353	1,447,821	2,246,174	10,588
Accrued Payroll	69,233	60,707	129,940	
Intergovernmental Payable	54,587	172,778	227,365	
Accrued Interest Payable	15,080	40,045	55,125	
Internal Balances	62,782	2,448,083	2,510,865	
Deferred Revenues	87,290		87,290	
Other Current Liabilities	118,188	581,966	700,154	
Noncurrent Liabilities				
Due Within One Year	653,783	1,829,846	2,483,629	
Due in More Than One Year	3,567,817	9,751,440	13,319,257	
Total Liabilities	<u>\$ 5,427,112</u>	<u>\$ 16,332,686</u>	<u>\$ 21,759,798</u>	<u>\$ 10,588</u>
NET ASSETS				
Invested in Fixed Assets, Net of Related Debt	11,337,687	15,290,809	26,628,496	
Restricted			-	
Unrestricted Net Assets	6,401,061	9,780,421	16,181,482	340,486
Total Net Assets	<u>\$ 17,738,748</u>	<u>\$ 25,071,230</u>	<u>\$ 42,809,978</u>	<u>\$ 340,486</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Statement of Activities
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Administration	\$ 1,533,156	\$ 93,143	
Tourism	1,689,275		
Police	3,373,089	159,394	
Fire	728,110		\$ 271,838
Emergency Management	67,940		37,593
Streets	1,956,321	12,537	
Parks	1,252,897	373,500	2,645
Health	130,521	69,255	27,941
Total Governmental Activities	<u>\$ 10,731,308</u>	<u>\$ 707,829</u>	<u>\$ 340,017</u>
Business-type Activities:			
Electric	\$11,262,905	\$11,482,771	
Water	3,223,018	3,395,807	
Golf	1,358,499	1,000,894	
Landfill	1,706,221	1,671,709	
EMS	1,564,853	915,070	
Drainage	282,133	73,752	
Total Business-type Activities	<u>\$ 19,397,629</u>	<u>\$ 18,540,002</u>	<u>\$ -</u>
Total Government	<u>\$ 30,128,937</u>	<u>\$ 19,247,832</u>	<u>\$ 340,017</u>
Component Unit			
Fredericksburg Convention and Visitors Bureau	<u>\$ 1,256,133</u>		

General Revenues:

Taxes
Property Taxes
Sales Tax
Hotel Occupancy Tax
Other Taxes
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit Convention & Visitors Bureau
\$ (1,440,013)		\$ (1,440,013)	
(1,689,275)		(1,689,275)	
(3,213,695)		(3,213,695)	
(456,272)		(456,272)	
(30,347)		(30,347)	
(1,943,783)		(1,943,783)	
(876,752)		(876,752)	
(33,324)		(33,324)	
<u>\$ (9,683,461)</u>	<u>\$ -</u>	<u>\$ (9,683,461)</u>	
	\$ 219,866	\$ 219,866	
	172,789	172,789	
	(357,605)	(357,605)	
	(34,513)	(34,513)	
	(649,782)	(649,782)	
	(208,381)	(208,381)	
<u>\$ -</u>	<u>\$ (857,627)</u>	<u>\$ (857,627)</u>	
<u>\$ (9,683,461)</u>	<u>\$ (857,627)</u>	<u>\$ (10,541,088)</u>	
			<u>\$ (1,256,133)</u>
2,681,736	398,120	\$ 3,079,856	
3,701,322		3,701,322	
1,702,381		1,702,381	
585,615		585,615	
85,054	1,900,812	1,985,865	\$ 1,395,181
46,944	44,846	91,791	
626,315	(744,833)	(118,518)	
<u>\$ 9,429,368</u>	<u>\$ 1,598,944</u>	<u>\$ 11,028,312</u>	<u>\$ 1,395,181</u>
\$ (254,093)	\$ 741,318	\$ 487,224	\$ 139,048
\$ 17,992,841	\$ 24,329,912	\$ 42,322,753	\$ 201,438
<u>\$ 17,738,748</u>	<u>\$ 25,071,230</u>	<u>\$ 42,809,977</u>	<u>\$ 340,486</u>

City of Fredericksburg
Governmental Funds
Balance Sheet
September 30, 2010

	General	Debt Service	Total
Assets			
Cash and Cash Equivalents	\$ 2,329,849	\$ 143,831	\$ 2,473,680
Investments	2,990,000		2,990,000
Taxes Receivable (Net of Allowance for Uncollectible)	506,864		506,864
Receivable (Net of Allowance for Uncollectible)	210,972		210,972
Intergovernmental Receivables	687,428		687,428
Due from Other Funds	169,327	31,339	200,666
Total Assets	<u>\$ 6,894,441</u>	<u>\$ 175,169</u>	<u>\$ 7,069,610</u>
Liabilities and Fund Balance			
Accounts Payable	\$ 648,353		\$ 648,353
Wages and Salaries Payable	69,233		69,233
Intergovernmental Payable	54,587		54,587
Due to other Funds	108,654	\$ 2,301	110,956
Deferred Revenues	142,227		142,227
Other Current Liabilities	118,188		118,188
Total Liabilities	<u>\$ 1,141,242</u>	<u>\$ 2,301</u>	<u>\$ 1,143,543</u>
Fund Balance			
Reserved for:			
Debt service		172,868	172,868
Unreserved reported in General Fund	5,753,199		5,753,199
Total Fund Balances	<u>\$ 5,753,199</u>	<u>\$ 172,868</u>	<u>\$ 5,926,067</u>
Total Liabilities and Fund Balance	<u>\$ 6,894,441</u>	<u>\$ 175,169</u>	<u>\$ 7,069,610</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2010

Total Fund Balances - Governmental Funds	\$5,926,067
The City uses an internal service fund to charge the cost of hospitalization self insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.	435,136
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$30,456,785 and the accumulated depreciation was \$14,136,993. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) in the government-wide financials is an increase (decrease) to net assets.	16,319,791
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases to capital assets in the government-wide financial statements. The net effect of including 2010 capital outlays is an increase (decrease) to net assets.	428,852
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets.	(1,189,355)
Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets.	(4,769,819)
Current year proceeds from issuance of long-term debt are reported as other financing sources in the fund financial statements, but they should be shown as an increase to long-term debt in the government-wide financial statements. The net effect of including 2010 bond proceeds is an increase (decrease) to net assets.	(3,626,931)
Current year long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of including 2010 debt principal payments is to increase (decrease) net assets.	4,152,504
Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	62,503
Net Assets of Governmental Activities	<u><u>\$17,738,748</u></u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2010

	General	Debt Service	Total
Revenues			
General Property Taxes	\$ 1,866,940	\$ 791,362	\$ 2,658,303
General Sales and Use Taxes	3,701,322		3,701,322
Hotel Occupancy Taxes	1,702,381		1,702,381
Other Taxes	585,615		585,615
Licenses and Permits	128,010		128,010
Charges for Services	12,537		12,537
Fines	150,133		150,133
Pavilion and Camping Fees	350,227		350,227
Rentals	33,987		33,987
Intergovernmental Revenue	320,807		320,807
Grants	16,565		16,565
Investment Earnings	40,252	6,692	46,944
Other Revenues	115,702		115,702
Total Revenues	<u>\$ 9,024,479</u>	<u>\$ 798,054</u>	<u>\$ 9,822,533</u>
Expenditures			
Administration	\$ 1,164,025	\$ 67,767	\$ 1,231,792
Tourism	1,689,275		1,689,275
Police	3,107,117		3,107,117
Fire	609,803		609,803
Emergency Management	58,635		58,635
Streets	1,413,551		1,413,551
Parks	942,550		942,550
Health	125,826		125,826
Debt Service			
Principal	95,496	523,025	618,521
Interest	11,098	117,449	128,547
Capital Outlays	428,852		428,852
Total Expenditures	<u>\$ 9,646,226</u>	<u>\$ 708,241</u>	<u>\$ 10,354,467</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (621,747)</u>	<u>\$ 89,814</u>	<u>\$ (531,934)</u>
Other Financing Sources (Uses)			
Payment to Refunding Agent		\$ (3,558,288)	\$ (3,558,288)
Transfers in	\$ 1,096,463		1,096,463
Transfers (out)	(470,148)		(470,148)
Proceeds from 2010 Refunding GO		3,633,351	3,633,351
Total Other Financing Sources (Uses)	<u>\$ 626,315</u>	<u>\$ 75,063</u>	<u>\$ 701,379</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 4,568</u>	<u>\$ 164,877</u>	<u>\$ 169,445</u>
Fund Balances - Beginning	<u>5,748,631</u>	<u>7,991</u>	<u>5,756,622</u>
Fund Balances - Ending	<u>\$ 5,753,199</u>	<u>\$ 172,868</u>	<u>\$ 5,926,067</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2010

Total Net Change in Fund Balances - Governmental Funds \$169,443

The City uses an internal service fund to charge the cost of hospitalization insurance to the governmental funds. The net income (loss) of this internal service fund is consolidated with the governmental fund in the Statement of Activities. (219,609)

Governmental funds report capital outlays as expenditures. However in the Statement of Activities these costs are reported as depreciation expense to allocate the expenditures over the life of the asset.

Capital Outlays	428,852
Depreciation Expense	(1,189,355)

Bond proceeds provide current financial resources to government funds, but issuing debt increases long term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bond Proceeds	(3,604,164)
Principal Payments	4,152,504

Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Balances	(22,814)
Accrued Interest Expense	7,567

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest.

Deferred Revenue	23,483
------------------	--------

Change in Net Assets of Governmental Activities (\$254,093)

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2010

	Business-type Activities - Enterprise Funds			
	Electric	Water	Golf	Landfill
ASSETS				
Current assets:				
Cash and Cash Equivalents	\$ 1,359,837	\$ 3,574,234	\$ (660,596)	\$ 1,048,374
Investments	500,000	1,500,000		1,000,000
Internal Balances	2,297,691	310	737	
Intergovernmental Receivable	-	-	250,000	
Accounts Receivable (Net of Allowance)	1,313,634	434,944	-	128,533
Inventory	727,654	169,786	39,306	
Total Current Assets	<u>\$ 6,198,816</u>	<u>\$ 5,679,274</u>	<u>\$ (370,553)</u>	<u>\$ 2,176,906</u>
Non-current Assets:				
Property and Equipment				
Land	\$ 100,117	\$ 474,542	\$ 305,399	\$ 209,549
Buildings	1,983,608	2,385,773	1,803,856	66,458
Improvements	8,130,819	22,971,378	1,240,964	3,407,348
Machinery and Equipment	1,680,796	1,953,432	989,708	2,967,087
Less: Accumulated Depreciation	(8,679,836)	(11,218,826)	(1,957,690)	(5,175,201)
Total Noncurrent Assets	<u>\$ 3,215,504</u>	<u>\$ 16,566,299</u>	<u>\$ 2,382,237</u>	<u>\$ 1,475,241</u>
Total Assets	<u>\$ 9,414,320</u>	<u>\$ 22,245,574</u>	<u>\$ 2,011,684</u>	<u>\$ 3,652,148</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 929,823	\$ 373,179	\$ 69,553	\$ 65,596
Accrued Payroll	12,916	16,777	10,538	9,331
Intergovernmental Payable	108,585	-	10,354	12,205
Accrued Interest Payable		33,164	1,916	
Internal Balances	64,702	301,839	2,000,636	18,668
Other Current Liabilities	284,270	137,726	17,407	10,000
Capital Leases Payable			59,017	
Bonds Payable-Current Maturity				
General Obligation Bonds		293,097	89,097	
Revenue Bonds		205,000		
Limited Tax Notes		965,000		
Total Current Liabilities	<u>\$ 1,400,297</u>	<u>\$ 2,325,781</u>	<u>\$ 2,258,517</u>	<u>\$ 115,800</u>
Noncurrent Liabilities:				
Bonds Payable-Non Current				
General Obligation Bonds		628,800	-	
Revenue Bonds		1,670,000		
Limited Tax Notes		4,310,000		
Unamortized Charge-Refunding Bond		(114,969)	(2,820)	
Unamortized Premiums (Discount) on Bonds		5,911	113	
Compensated Absences	147,248	117,705	54,001	77,112
Closure and Post Closure Liability				1,692,549
Total Noncurrent Liabilities	<u>\$ 147,248</u>	<u>\$ 6,617,447</u>	<u>\$ 51,294</u>	<u>\$ 1,769,661</u>
Total Liabilities	<u>\$ 1,547,544</u>	<u>\$ 8,943,228</u>	<u>\$ 2,309,811</u>	<u>\$ 1,885,461</u>
Net Assets				
Invested in Fixed Assets, Net of Related Debt				
Restricted for:				
Unrestricted	7,866,776	13,302,346	(298,126)	1,766,686
Total Net Assets	<u>\$ 7,866,776</u>	<u>\$ 13,302,346</u>	<u>\$ (298,126)</u>	<u>\$ 1,766,686</u>

The notes to the Financial Statements are an integral part of this statement.

EMS	Drainage	Enterprise Fund Totals	Governmental Activities Internal Service Fund
\$ 28,134	\$ 288,728	\$ 5,638,712	\$ 328,156
	200,000	3,200,000	250,000
37,545	15,730	2,352,014	6,644
-		250,000	
270,818	6,421	2,154,350	621
		936,745	
<u>\$ 336,497</u>	<u>\$ 510,880</u>	<u>\$ 14,531,821</u>	<u>\$ 585,421</u>
		\$ 1,089,608	
368,666		6,608,362	
7,061	4,359,774	40,117,344	
1,111,055	2,330	8,704,409	
(1,015,228)	(1,600,846)	(29,647,628)	
<u>\$ 471,554</u>	<u>\$ 2,761,258</u>	<u>\$ 26,872,094</u>	<u>\$ -</u>
<u>\$ 808,051</u>	<u>\$ 3,272,138</u>	<u>\$ 41,403,915</u>	<u>\$ 585,421</u>
\$ 9,670	\$ -	\$ 1,447,821	\$ 150,000
11,145		60,707	
41,633		172,778	
1,848	3,117	40,045	
61,492	746	2,448,083	285
		449,403	
73,544		132,561	
	277,653	659,846	
		205,000	
		965,000	
<u>\$ 199,334</u>	<u>\$ 281,516</u>	<u>\$ 6,581,245</u>	<u>\$ 150,285</u>
	1,144,418	1,773,218	
		1,670,000	
		4,310,000	
	(39,306)	(157,095)	
	6,713	12,737	
53,966		450,032	
		1,692,549	
<u>\$ 53,966</u>	<u>\$ 1,111,824</u>	<u>\$ 9,751,440</u>	<u>\$ -</u>
<u>\$ 253,299</u>	<u>\$ 1,393,341</u>	<u>\$ 16,332,684</u>	<u>\$ 150,285</u>
		\$ -	
554,752	1,878,797	25,071,230	435,136
<u>\$ 554,752</u>	<u>\$ 1,878,797</u>	<u>\$ 25,071,230</u>	<u>\$ 435,136</u>

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2010

	Business-type Activities - Proprietary Funds		
	Electric	Water	Golf
OPERATING REVENUES			
Electric Sales	\$ 11,444,298		
Water Sales		\$ 1,950,983	
Sewer Sales		1,433,090	
Golf Course Fees			\$ 1,000,894
Garbage Collection and Tipping Fees			
EMS Fees			
Drainage Utilities			
Licenses and Permits	8,597	11,733	
Property Taxes			
Rents and Royalties	29,876	3,153	
Other Revenue	211,470	797,558	554,261
Total Operating Revenues	<u>\$ 11,694,241</u>	<u>\$ 4,196,518</u>	<u>\$ 1,555,155</u>
OPERATING EXPENSES			
Salaries and Wages	\$ 825,845	\$ 841,893	\$ 513,963
Employee Benefits	215,983	241,216	159,894
Contracted Services	115,044	35,797	9,230
Other Operating Expenses	9,802,290	1,060,141	490,711
Amortization of Bond Costs		6,782	55
Depreciation	303,743	710,912	173,464
Total Operating Expenses	<u>\$ 11,262,905</u>	<u>\$ 2,896,742</u>	<u>\$ 1,347,317</u>
Operating Income (Loss)	\$ 431,336	\$ 1,299,776	\$ 207,837
Nonoperating Revenues (Expenses):			
Investment Income	\$ 3,284	\$ 34,027	\$ 435
Interest Expense		(326,276)	(11,182)
Transfers to Other Funds	(699,800)	(252,900)	
Transfers from Other Funds			
Total Nonoperating Revenues (Expenses)	<u>\$ (696,516)</u>	<u>\$ (545,150)</u>	<u>\$ (10,747)</u>
Changes in Net Assets	\$ (265,180)	\$ 754,627	\$ 197,091
Total Net Assets - Beginning	<u>8,131,957</u>	<u>12,547,717</u>	<u>(495,215)</u>
Total Net Assets - Ending	<u>\$ 7,866,777</u>	<u>\$ 13,302,344</u>	<u>\$ (298,124)</u>

The notes to the Financial Statements are an integral part of this statement.

Landfill	EMS	Drainage	Totals	Governmental Activities Internal Service Fund
			\$ 11,444,298	
			1,950,983	
			1,433,090	
\$ 1,664,659			1,000,894	
	\$ 915,070		1,664,659	
150		\$ 73,752	915,070	
6,900		398,120	73,752	
128	334,242	0	20,480	
\$ 1,671,837	\$ 1,249,312	\$ 471,871	398,120	
			1,897,929	\$ 936,985
			\$ 20,838,934	\$ 936,985
\$ 504,862	\$ 859,980		\$ 3,546,543	
156,070	214,315		987,478	
8,695	3,747	\$ 1,872	174,385	
612,140	384,954	123	12,350,359	\$ 1,158,102
		879	7,716	
424,455	97,895	218,273	1,928,743	
\$ 1,706,221	\$ 1,560,892	\$ 221,147	\$ 18,995,224	\$ 1,158,102
\$ (34,385)	\$ (311,580)	\$ 250,724	\$ 1,843,709	\$ (221,117)
\$ 3,640	\$ 11	\$ 3,450	\$ 44,846	\$ 1,508
(100,500)	(3,961)	(60,986)	(402,405)	
	308,367		(1,053,200)	
\$ (96,860)	\$ 304,417	\$ (57,536)	\$ (1,102,392)	\$ 1,508
\$ (131,245)	\$ (7,163)	\$ 193,188	\$ 741,318	\$ (219,609)
1,897,929	561,915	1,685,609	24,329,912	654,745
\$ 1,766,684	\$ 554,752	\$ 1,878,797	\$ 25,071,230	\$ 435,136

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2010

	Enterprise Funds	
	Electric	Water
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 11,666,918	\$ 4,192,082
Cash Payments to Employees for Services	(1,070,964)	(1,112,613)
Cash Payments for Suppliers	(10,000,895)	(1,000,748)
Net Cash Provided (Used) by Operating Activities	\$ 595,059	\$ 2,078,721
Cash Flows from Non-capital Financing Activities		
Operating Transfers Out	\$ (699,800)	\$ (252,900)
Operating Transfers In		
Net Cash Provided (Used) by Non-capital Financing Activities	\$ (699,800)	\$ (252,900)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	\$ (75,650)	\$ (373,303)
Bond Proceeds		935,147
Bond Issuance Costs		15,693
Principal Paid on Capital Debt		(2,321,659)
Interest Paid on Capital Debt		(326,276)
Deferred Loss on Early Retirement of Debt		
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (75,650)	\$ (2,070,398)
Cash Flows from Investing Activities		
Interest Received on Investments	\$ 3,284	\$ 34,027
Net Cash Provided by Investing Activities	\$ 3,284	\$ 34,027
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (177,107)	\$ (210,550)
Cash and Cash Equivalents, Beginning	2,036,944	5,284,784
Cash and Cash Equivalents, Ending	\$ 1,859,837	\$ 5,074,234

The notes to the Financial Statements are an integral part of this statement

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ 1,563,069	\$ 1,726,315	\$ 1,217,433	\$ 471,868	\$ 20,837,685	\$ 937,575
(693,578)	(677,622)	(1,102,718)		(4,657,495)	
(734,320)	(498,414)	(332,988)	(19,483)	(12,586,848)	(1,023,461)
<u>\$ 135,171</u>	<u>\$ 550,279</u>	<u>\$ (218,273)</u>	<u>\$ 452,385</u>	<u>\$ 3,593,342</u>	<u>\$ (85,886)</u>
	\$ (100,500)			\$ (1,053,200)	
		\$ 308,367		308,367	
<u>\$ -</u>	<u>\$ (100,500)</u>	<u>\$ 308,367</u>	<u>\$ -</u>	<u>\$ 308,367</u>	<u>\$ -</u>
\$ (41,929)	\$ (386,278)	\$ (23,028)	\$ (7,258)	\$ (907,446)	
90,347			1,440,402	2,465,896	
3,704					
(207,552)		(70,732)	(1,686,674)	(4,286,617)	
(11,182)		(3,961)	(60,986)	(402,405)	
			(5,038)	(5,038)	
				-	
<u>\$ (166,612)</u>	<u>\$ (386,278)</u>	<u>\$ (97,721)</u>	<u>\$ (319,554)</u>	<u>\$ (3,135,610)</u>	<u>\$ -</u>
<u>\$ 435</u>	<u>\$ 3,640</u>	<u>\$ 11</u>	<u>\$ 3,450</u>	<u>\$ 44,847</u>	<u>\$ 1,508</u>
<u>\$ 435</u>	<u>\$ 3,640</u>	<u>\$ 11</u>	<u>\$ 3,450</u>	<u>\$ 44,847</u>	<u>\$ 1,508</u>
<u>\$ (31,006)</u>	<u>\$ 67,141</u>	<u>\$ (7,616)</u>	<u>\$ 136,281</u>	<u>\$ (222,857)</u>	<u>\$ (84,378)</u>
<u>(629,590)</u>	<u>1,981,231</u>	<u>35,750</u>	<u>352,447</u>	<u>9,061,566</u>	<u>662,534</u>
<u>\$ (660,596)</u>	<u>\$ 2,048,372</u>	<u>\$ 28,134</u>	<u>\$ 488,728</u>	<u>\$ 8,838,709</u>	<u>\$ 578,156</u>

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2010

	Enterprise Funds	
	Electric	Water
<u>Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	\$ 431,336	\$ 1,299,776
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	303,743	710,912
Amortization		6,782
Loss on Disposal of Assets	996	
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables	(27,323)	(4,435)
Decrease (Increase) in Due from Other Funds	(22,636)	(310)
Decrease (Increase) in Due from Other Governments		
Decrease (Increase) in Inventories	67,421	154
Decrease (Increase) in Deferred Charges		
Increase (Decrease) in Accounts Payable	27,102	146,912
Increase (Decrease) in Wages Payable	(29,136)	(29,504)
Increase (Decrease) in Interest Payable		(9,074)
Increase (Decrease) in Due to Other Funds	51,364	23,874
Increase (Decrease) in Due to Other Governments	(228,455)	(79,600)
Increase (Decrease) in Compensated Absences Payable	15,917	8,334
Increase (Decrease) in Landfill Closure Liability		
Increase (Decrease) in Other Current Liabilities	4,730	4,900
Net Cash Provided by (Used For) Operating Activities	\$ 595,059	\$ 2,078,721

The notes to the Financial Statements are an integral part of this statement.

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ 207,837	\$ (34,385)	\$ (311,580)	\$ 250,724	\$ 1,843,708	\$ (221,117)
173,464	424,455	97,895	218,273	1,928,742	
55			879	7,716	
				996	
7,914	54,478	(31,879)	(4)	(1,249)	590
(737)		(37,545)	(10,422)	(71,650)	59,356
(250,000)				(250,000)	
(2,025)				65,550	
				-	
22,960	6,607	(4,106)	(2,330)	197,145	75,000
(19,721)	(16,690)	(28,423)		(123,474)	
(327)		(1,776)	(5,482)	(16,659)	
(7,744)	13,176	55,112	746	136,528	285
(1,471)	(24,730)	41,633		(292,623)	
3,995	4,018	2,395		34,659	
	122,850			122,850	
970	500			11,100	
<u>\$ 135,170</u>	<u>\$ 550,279</u>	<u>\$ (218,274)</u>	<u>\$ 452,384</u>	<u>\$ 3,593,339</u>	<u>\$ (85,886)</u>

City of Fredericksburg, Texas
Fiduciary Funds
Statement of Net Assets
September 30, 2010

	Total Fiduciary Funds	Market Square Trust	Fireman's Relief Fund
ASSETS			
Cash and Cash Equivalents	\$ 323,417	\$ 308,727	\$ 14,690
Total Assets	323,417	308,727	14,690
LIABILITIES			
Accounts Payable	304	304	-
Total Liabilities	304	304	-
NET ASSETS			
Restricted	323,113	308,423	14,690
Total Net Assets	\$ 323,113	\$ 308,423	\$ 14,690

The notes to the Financial Statements are an integral part of this statement.

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fredericksburg, Texas (the "City") is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides such services as are authorized by its code of ordinances and its inhabitants. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

A. Discretely Presented Component Unit

The Fredericksburg Convention and Visitor Bureau's mission is to create a positive business environment, take a leadership role in community affairs, be an information resource for its members, help in providing a better quality of life for its citizens and increase growth of the overnight tourism and meeting industry in Fredericksburg.

The Bureau is governed by a Board of Directors comprised of 11 members. Each member is appointed by the City Council of the City of Fredericksburg. The Bureau also provides the City with financial information, as required by City Council. In addition, the annual budget for the Bureau must be approved by City Council. These facts distinguish the Bureau as a discretely presented component unit of the City.

Complete financial statements for the component unit may be obtained at the Fredericksburg Convention and Visitor Bureau's administrative office, which is located at 302 E. Austin, Fredericksburg, Texas 78624.

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 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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 indirectly 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*.

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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City has the following major governmental fund:

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following proprietary funds:

The Electric Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates electricity services.

The Water and Sewer Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates water and sewer services.

The Golf Course Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a golf course facility.

The Solid Waste Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a sanitary landfill.

The Emergency Medical Service Fund (EMS) – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates Emergency Medical Services jointly with the County of Gillespie.

The Drainage Utilities Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates drainage utilities services.

Additionally, the government reports the following fund types:

Internal Service Funds account for Health Insurance services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Agency Funds - are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. The City accounts for the Firemen's Relief Pension Fund and the Market Square Trust Fund agency funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination.

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Cash and temporary investments consist of demand deposits, time deposits, and balances in public funds investment pools. Short-term investments are stated at cost.

For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There were no balances that were considered “advanced to/from other funds” at September 30, 2010. All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rates.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Gillespie County Central Appraisal District (“CAD”) establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the CAD. The Gillespie County Tax Assessor performs billings and collection of tax levies.

3. Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories in the Enterprise Fund are valued at cost (first-in, first-out method).

4. 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 \$5,000 (amount not rounded) 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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

4. Capital Assets (Continued)

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 are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 – 50
Improvements other than buildings	10 – 50
Equipment	5 – 15
Infrastructure	30

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next calendar year. Expenditures are reported for these amounts.

6. 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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. 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 the use for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

8. 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.

9. Use of Estimates

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

10. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. The reclassifications did not change total assets, total liabilities, total fund equity, total revenue of funds and total expense/expenditures.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes 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, “*Various other reclassifications and eliminations*” The details of this \$62,504 difference are as follows:

Deferred Revenues	\$	54,937
Accrued Interest Expense		<u>7,566</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	<u>62,503</u>

B. 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 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, “*Various other reclassifications and eliminations*” The details of this \$23,483 difference are as follows:

Reclass delinquent property taxes collected in current year	\$	<u>23,483</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	\$	<u>23,483</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Special Revenue Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted on a fund basis by the City Council.
4. The City Council can adjust the budget during its formal City Council meetings.
5. Actual expenditures cannot exceed the legally-adopted budget.
6. Appropriations lapse at the end of the year.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2010, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 447,643	30
Portfolio weighted average maturity (days)	\$ 447,643	30

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

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by maintaining a weighted average days to maturity for the operating fund portfolio of less than 360 days. The maximum allowable maturity for any investment is 3 years.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments

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, 2010, the City had cash deposits of \$14,736,305. The total fair market value of pledge securities held as collateral amounted to \$15,108,331. In addition \$250,000 of the deposits are covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2010, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAAm	Standard & Poor's

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities;
2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed \$250,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and MBIA Class.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

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

	Government Funds			Enterprise Funds				Totals
	General	Electric	Water	Golf	Landfill	EMS	Drainage	
Taxes	514,364							514,364
Due from Other Governments	687,428			250,000				937,428
Customer Accounts	102,254	1,320,242	437,809		128,239	310,039	6,316	2,304,899
Notes	105,000							105,000
Interest	6,450	362	1,181		725		145	8,863
Gross Receivables	1,415,496	1,320,604	438,990	250,000	128,964	310,039	6,461	3,870,554
Less: Allowance for Uncollectibles	(10,233)	(6,970)	(4,046)		(431)	(39,221)	(40)	(60,941)
Net Total Receivables	1,405,263	1,313,634	434,944	250,000	128,533	270,818	6,421	3,809,613

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:

General Fund – Deferred Revenues

Fines Receivable	\$	57,445
Taxes Receivable – Delinquent		84,782
Total Deferred Revenues	\$	<u>142,227</u>

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,965,385	\$ -	\$ -	\$ 2,965,385
Total assets not being depreciated	<u>2,965,385</u>	<u>-</u>	<u>-</u>	<u>2,965,385</u>
Capital assets, being depreciated:				
Buildings	7,232,908	94,823	-	7,327,731
Improvements other than buildings	13,178,323	51,967	-	13,230,290
Equipment	7,080,167	282,062	80,203	7,282,026
Total capital assets being depreciated	<u>27,491,398</u>	<u>428,852</u>	<u>80,203</u>	<u>27,840,047</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>14,136,993</u>	<u>1,189,355</u>	<u>80,203</u>	<u>15,246,145</u>
Total capital assets being depreciated, net	<u>13,354,405</u>	<u>(760,503)</u>	<u>-</u>	<u>12,593,902</u>
Governmental activities capital assets, net	<u>\$ 16,319,790</u>	<u>(760,503)</u>	<u>-</u>	<u>15,559,287</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	1,089,608	-	-	1,089,608
Total assets not being depreciated	<u>1,089,608</u>	<u>-</u>	<u>-</u>	<u>1,089,608</u>
Capital assets, being depreciated:				
Buildings	6,608,362	-	-	6,608,362
Improvements other than buildings	39,710,471	439,527	32,654	40,117,344
Equipment	8,335,312	467,919	98,822	8,704,409
Total capital assets being depreciated	<u>54,654,145</u>	<u>907,446</u>	<u>131,476</u>	<u>55,430,115</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>27,849,365</u>	<u>1,928,743</u>	<u>130,479</u>	<u>29,647,629</u>
Total capital assets being depreciated, net	<u>26,804,780</u>	<u>(1,021,297)</u>	<u>997</u>	<u>25,782,486</u>
Business-type activities capital assets, net	<u>27,894,388</u>	<u>(1,021,297)</u>	<u>997</u>	<u>26,872,094</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities:		
Administrative	\$	142,302
Police		150,965
Fire		98,927
Streets		495,632
Parks		292,224
Emergency Management		<u>9,305</u>
Total depreciation expense – governmental activities	\$	<u>1,189,355</u>
Business-type activities:		
Electric	\$	303,743
Water and Sewer		710,912
Golf		173,464
Landfill		424,455
EMS		97,895
Drainage Utilities		<u>218,273</u>
Total depreciation expense – business-type activities	\$	<u>1,928,742</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

General Fund		DUE TO		DUE FROM
Electric		9,205		
EMS		37,545		60,833
Tourism				5,039
Drainage		15,730		
Emergency Management				6,102
Debt Service		31,339		2,000
Hospitalization Insurance		3,426		
Payroll Clearing		267		
Electric Fund				
General Fund				9,205
Water				279,243
Golf				2,000,000
Landfill				9,243
Drainage		502		
Hospitalization Insurance				
Water & Sewer Fund				
Electric		279,243		
Drainage				310
Hospitalization Insurance		796		
Golf Fund				
Electric		2,000,000		
Drainage				436
Debt Service				301
Hospitalization		636		
Landfill				
Electric		9,243		
Hospitalization Insurance		625		
EMS				
General Fund		60,833		37,545
Hospitalization Insurance		659		
Tourism				
General Fund		5,039		
Drainage				
General Fund				15,730
Water & Sewer		310		
Golf		436		
Emergency Management				
General Fund		6,102		
Debt Service				
General Fund		2,000		31,339
Golf		301		
Hospitalization Insurance				
General Fund				3,426
Electric				502
Water & Sewer				796
Golf				636
Landfill				625
EMS				659
Payroll Clearing		285		
Payroll Clearing				
General Fund				267
Hospitalization Insurance				285
Total Due To/Due From		2,464,522		2,464,522

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

Of the \$279,243 due to the Electric Fund from the Water and Sewer Fund, \$270,000 resulted from loans made to establish working capital when the fund was first created. This amount is expected to be repaid.

The balance of \$2,000,000 due to the Electric Fund from the Golf Course Fund resulted from an internal loan issued in conjunction with the City's pooled cash accounts. This amount is expected to be repaid.

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

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Electric	699,800	
Water & Sewer	252,900	
Landfill	100,500	
EMS		308,637
Market Square Trust	43,263	
Electric Fund		
General Fund		699,800
Water Fund		
General Fund		252,900
Landfill		
General Fund		100,500
EMS		
General Fund	308,367	
Tourism		
Market Square Trust		161,782
Market Square Trust		
General Fund		43,263
Tourism	161,782	
Total Transfers	<u>\$ 1,566,612</u>	<u>\$ 1,566,612</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as the debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2010, the City made payments from various funds to the General Fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

Electric	\$ 699,800
Water and Sewer	252,900
Landfill	<u>100,500</u>
	<u>\$ 1,053,200</u>

Capital Leases

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. 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 future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	106,594	117,044
2012	67,111	21,647
2013	<u>67,111</u>	<u>-</u>
Total minimum lease payments	240,816	138,691
Less: amount representing interest	<u>(15,100)</u>	<u>(6,130)</u>
Present value of minimum lease payments	<u>\$ 225,716</u>	<u>132,561</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,019,781	\$ 3,604,164	\$ 4,057,008	\$ 3,566,937	\$ 555,155
Total bonds payable	4,019,781	3,604,164	4,057,008	3,566,937	555,155
Capitalized leases	321,212	-	95,496	225,716	98,628
Compensated absences	406,132	22,814	-	428,946	-
Total governmental Activities	<u>\$ 4,747,125</u>	<u>\$ 3,626,978</u>	<u>\$ 4,152,504</u>	<u>\$ 4,221,599</u>	<u>\$ 653,783</u>
Business-type activities					
Certificates of obligation:					
Certificates of obligation	\$ 2,125,000	\$ -	\$ 2,125,000	\$ -	\$ -
Less: discount on bonds	(40,511)	-	(40,511)	-	-
Total Certificates of Obligation	2,084,489	-	2,084,489	-	-
General obligation bonds:					
General obligation bonds	900,160	2,465,836	932,932	2,433,064	659,845
Less: discount on bonds	(7,369)	(28,588)	(8,874)	(27,083)	-
Less: premium on bonds	-	13,444	707	12,737	-
Less: deferred amount on refundings	(19,310)	(65,573)	(36,996)	(47,887)	-
Total bonds payable	873,481	2,385,119	887,769	2,370,831	659,845
Revenue Bonds and Notes					
Revenue bonds	2,070,000	-	195,000	1,875,000	205,000
Less: Discount on Bonds	(52,696)	-	(6,212)	(46,484)	-
Limited tax notes	6,200,000	-	925,000	5,275,000	965,000
Less: Discount on Bonds	(44,550)	-	(8,910)	(35,640)	-
Total revenue bonds & notes	8,172,754	-	1,104,878	7,067,876	1,170,000
Capitalized leases	241,185	-	108,624	132,561	111,763
Compensated absences	223,299	226,733	-	450,032	-
Total business-type Activities	<u>\$ 11,595,208</u>	<u>\$ 2,611,852</u>	<u>\$ 4,185,760</u>	<u>\$ 10,021,300</u>	<u>\$ 1,941,608</u>
Long-term liabilities	<u>\$ 16,342,333</u>	<u>\$ 6,238,830</u>	<u>\$ 8,338,264</u>	<u>\$ 14,242,899</u>	<u>\$ 2,595,391</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

Governmental activities long-term liabilities at September 30, 2010, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Bonds	3,604,164	1.00%-3.00%	<u>\$ 3,566,937</u>

Compensated absences are generally liquidated by the General Fund. The funds utilized for the repayment of long-term liabilities for governmental activities are the Debt Service Fund and the General Fund.

Business-type Activities long-term liabilities at September 30, 2010, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2003 Revenue Bonds	2,975,000	1.61% to 4.40%	\$ 1,875,000
2008 Tax Notes	6,200,000	3.340%	5,275,000
2010 General Obligation Bonds	2,465,836	1.00% to 3.00%	2,433,064
			<u>\$ 9,583,064</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2010, are as follows:

September 30,	Principal	General Obligation Bonds Interest	Total
2011	555,155	75,603	630,758
2012	368,347	70,051	438,398
2013	368,348	66,367	434,715
2014	381,348	59,001	440,349
2015	359,681	51,374	411,055
2016-2019	1,534,058	114,772	1,648,830
	<u>\$ 3,566,937</u>	<u>\$ 437,168</u>	<u>\$ 4,004,105</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Long-term Liabilities (Continued)

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2010, are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>General Obligation Bonds, Certificates of Obligation and Revenue Bonds Interest</u>	<u>Total</u>
2011	\$ 1,829,845	\$ 271,417	\$ 2,101,262
2012	1,706,653	224,343	1,930,996
2013	1,771,652	176,828	1,948,480
2014	1,828,652	122,038	1,950,690
2015	1,435,319	65,178	1,500,497
2016-2019	<u>1,010,943</u>	<u>69,264</u>	<u>1,080,207</u>
	<u>\$ 9,583,064</u>	<u>\$ 929,068</u>	<u>\$ 10,512,132</u>

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Plan Description (Continued)

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

Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: **5yrs/age 60, 20 yrs/any age**

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 28-year amortization period. The unit credit actuarial cost method is used for determining the City 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. (i.e. December 31, 2007 valuation is effective for rates beginning January 2009.)

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actual valuation date		<u>12/31/09</u>		<u>12/31/08</u>
Actuarial value of assets	\$	15,969,366	\$	14,348,595
Actuarial accrued liability		17,716,270		19,387,039
Percentage funded		90.1%		74.0%
Unfunded (over-funded)				
actuarial accrued liability (UAAL)		1,746,904		5,038,444
Annual covered payroll		6,934,236		6,786,501
UAAL as a percentage of covered payroll		25.2%		74.2%
Net pension obligation				
(NPO) at the beginning of period				
Annual Pension Cost:				
Annual required contribution (ARC)		751,667		712,916
Contributions made		751,667		712,916
Increase in NPO		-		-
NPO at the end of period		-		-

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	28 Years – Closed Period
Asset Valuation Method	-	10-year Smoothed Market
Investment Rate of Return	-	7.5%
Projected Salary Increases	-	Varies by age and service
Includes Inflation at	-	3.0%

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

The Fire Fighters' Pension Commission is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without monetary remuneration. At August 31, 2010, there were 199 members of fire or emergency services departments participating in the Fund. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, the Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,231
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Nonvested)	<u>4,371</u>
	<u>8,708</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created the Fund, and established the applicable benefit provisions. These benefit provisions include retirement benefits as well as death and disability benefits. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. Members are 50% vested after the 10th year of service, with the vesting percent increasing 10% for each of the next 5 years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by 6 times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund (Continued)

Plan Description (Continued)

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

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; and natural disasters for which the City participates in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2010.

Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Closure and Postclosure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and postclosure care costs has a balance of \$1,692,549 as of September 30, 2010, which is based on 93.41% usage of current open cells and 24.01% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2072. It is estimated that an additional \$99,942 would be recognized as closure and postclosure care expenses if the landfill discontinued operations after the current open cells have been completely filled. The estimated total current cost of the landfill closure and postclosure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2010. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2010

	Budgeted Amounts		GAAP Basis Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Revenues				
General Property Taxes	\$ 2,091,000	\$ 2,091,000	\$ 1,866,940	\$ (224,060)
General Sales and Use Taxes	3,700,000	3,700,000	3,701,322	1,322
Hotel Occupancy Taxes	1,715,000	1,715,000	1,702,381	(12,619)
Other Taxes	530,000	530,000	585,615	55,615
Licenses and Permits	118,800	118,800	128,010	9,210
Charges for Services	10,800	10,800	12,537	1,737
Fines	100,500	100,500	150,133	49,633
Pavillion and Camping Fees	291,000	291,000	350,227	59,227
Rentals	32,300	32,300	33,987	1,687
Intergovernmental Revenue	349,000	349,000	320,807	(28,193)
Grants	17,600	17,600	16,565	(1,035)
Investment Earnings	39,000	39,000	40,252	1,252
Other Revenues	95,400	95,400	115,702	20,302
Total Revenues	<u>\$ 9,090,400</u>	<u>\$ 9,090,400</u>	<u>\$ 9,024,479</u>	<u>\$ (65,921)</u>
Expenditures				
Administration	\$ 1,153,100	\$ 1,153,100	\$ 1,164,025	\$ (10,925)
Tourism	1,650,000	1,650,000	1,689,275	(39,275)
Police	3,035,600	3,035,600	3,107,117	(71,517)
Fire	653,400	653,400	609,803	43,597
Emergency Management	52,100	52,100	58,635	(6,535)
Streets	1,462,200	1,462,200	1,413,551	48,649
Parks	1,005,700	1,005,700	942,550	63,150
Health	132,200	132,200	125,826	6,374
Debt Service				-
Principal	58,000	58,000	95,496	(37,496)
Interest	9,200	9,200	11,098	(1,898)
Capital Outlays	1,549,000	1,549,000	428,852	1,120,148
Total Expenditures	<u>\$ 10,760,500</u>	<u>\$ 10,760,500</u>	<u>\$ 9,646,226</u>	<u>\$ 1,114,274</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (1,670,100)</u>	<u>\$ (1,670,100)</u>	<u>\$ (621,747)</u>	<u>\$ 1,048,353</u>
Other Financing Sources (Uses)				
Transfers in	\$ 1,107,300	\$ 1,107,300	\$ 1,096,463	\$ (10,837)
Transfers (out)	392,500	392,500	470,148	(77,648)
Total Other Financing Sources (Uses)	<u>\$ 714,800</u>	<u>\$ 714,800</u>	<u>\$ 626,315</u>	<u>\$ (88,485)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (955,300)</u>	<u>\$ (955,300)</u>	<u>\$ 4,568</u>	<u>\$ 959,868</u>
Fund Balances - Beginning	<u>5,748,631</u>	<u>5,748,631</u>	<u>5,748,631</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 4,793,331</u>	<u>\$ 4,793,331</u>	<u>\$ 5,753,199</u>	<u>\$ 959,868</u>

The notes to the Financial Statements are an integral part of this statement.