



**The City of
Fredericksburg,
Texas**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Assets	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	14
Reconciliation for Balance Sheet	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation for Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Budgetary Comparison Schedule - General Fund	18
Proprietary Fund Financial Statements:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	23
Statement of Cash Flows	29
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	31
Notes to the Financial Statements	32

KLEIN, KRAUS & COMPANY, LLC

Certified Public Accountants

1302 NORTH LLANO

P.O. BOX 2211

FREDERICKSBURG, TEXAS 78624-2211

(830) 997-5592

email: kkcpa@austin.rr.com

FAX: (830) 990-2692

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor and City Council
City of Fredericksburg, Texas
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 the City of Fredericksburg, Texas (the City) as of and for the year ended September 30, 2007, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2007, 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 on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2008, 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

February 18, 2008

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, 2007.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2007, by \$39,609,674 (net assets). Of this amount, \$28,336,985 (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 \$1,568,210.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,236,030. Approximately 98.76 percent of the total amount, \$6,159,006 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2007, unreserved fund balance for the General Fund was \$6,204,006 or 49.4 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The government-wide financial statements 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 19 – 30 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 32 – 53 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 \$39,609,674 as of September 30, 2007, compared to \$38,041,464 as of September 30, 2006.

CITY OF FREDERICKSBURG’S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 8,121,278	\$ 10,171,772	\$ 8,247,552	\$ 9,869,843	\$ 16,368,830	\$ 20,041,615
Capital assets	16,893,789	13,377,707	26,907,596	25,600,038	43,801,385	38,977,745
Total assets	<u>25,015,067</u>	<u>23,549,479</u>	<u>35,155,148</u>	<u>35,469,881</u>	<u>60,170,215</u>	<u>59,019,360</u>
Current liabilities	2,783,878	1,308,382	4,077,048	3,772,590	6,860,926	5,080,972
Noncurrent liabilities	4,696,292	5,774,181	9,003,323	10,122,743	13,699,615	15,896,924
Total liabilities	<u>7,480,170</u>	<u>7,082,563</u>	<u>13,080,371</u>	<u>13,895,333</u>	<u>20,560,541</u>	<u>20,977,896</u>
Net Assets:						
Invested in capital assets,						
Net of related debt	11,195,665	7,182,711	15,210,374	15,004,996	26,406,039	22,187,707
Restricted	77,024	63,493	-	-	77,024	63,493
Unrestricted	<u>6,262,208</u>	<u>9,220,712</u>	<u>6,864,403</u>	<u>6,569,552</u>	<u>13,126,611</u>	<u>15,790,264</u>
Total net assets	<u>\$ 17,534,897</u>	<u>\$ 16,466,916</u>	<u>\$ 22,074,777</u>	<u>\$ 21,574,548</u>	<u>\$ 39,609,674</u>	<u>\$ 38,041,464</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 \$13,126,611 may be used to meet the government’s ongoing obligations to citizens and creditors.

CITY OF FREDERICKSBURG'S CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 608,858	\$ 765,960	\$ 17,243,310	\$ 19,509,957	17,852,168	\$ 20,275,917
Operating grants	227,072	325,048	-	-	227,072	325,048
Capital grants and contributions	-	20,000	-	-	-	20,000
General revenues:						
Property taxes	2,310,431	2,014,020	-	-	2,310,431	2,014,020
Sales taxes	3,605,886	3,344,591	-	-	3,605,886	3,344,591
Franchise taxes	408,612	424,348	-	-	408,612	424,348
Other taxes	1,429,091	1,290,876	-	-	1,429,091	1,290,876
Miscellaneous Revenue	41,359	-	779,952	-	821,311	-
Investments earnings	292,231	345,814	384,854	311,887	677,085	657,701
Gain (loss) on sale of capital assets	<u>272,381</u>	<u>(395,382)</u>	<u>20,000</u>	<u>-</u>	<u>292,381</u>	<u>(395,382)</u>
Total revenues	<u>9,195,921</u>	<u>8,135,275</u>	<u>18,428,116</u>	<u>19,821,844</u>	<u>27,624,037</u>	<u>27,957,119</u>
Expenses:						
Administrative	2,631,700	2,105,669	-	-	2,631,700	2,105,669
Police	2,670,320	2,453,477	-	-	2,670,320	2,453,477
Fire	518,921	580,249	-	-	518,921	580,249
Streets	1,800,518	1,464,555	-	-	1,800,518	1,464,555
Parks	1,203,063	1,200,308	-	-	1,203,063	1,200,308
Health	66,701	76,669	-	-	66,701	76,669
Emergency Management	34,310	-	-	-	34,310	-
Interest on long-term Debt	210,307	216,716	-	-	210,307	216,716
Electric	-	-	9,371,455	11,001,428	9,371,455	11,001,428
Water and sewer	-	-	2,763,801	2,710,136	2,763,801	2,710,136
Golf	-	-	1,384,984	1,397,805	1,384,984	1,397,805
Landfill	-	-	1,737,067	976,859	1,737,067	976,859
EMS	-	-	1,326,045	1,181,153	1,326,045	1,181,153
Drainage utilities	-	-	<u>292,662</u>	<u>278,219</u>	<u>292,662</u>	<u>2,578,219</u>
Total expenses	<u>9,135,840</u>	<u>8,097,643</u>	<u>16,841,704</u>	<u>17,545,600</u>	<u>26,011,354</u>	<u>25,643,246</u>
Increase (decrease) in net assets before transfers	<u>60,081</u>	<u>37,632</u>	<u>1,552,102</u>	<u>2,276,244</u>	<u>1,612,183</u>	<u>2,313,879</u>
Transfers	<u>1,007,900</u>	<u>1,026,100</u>	<u>(957,900)</u>	<u>(1,026,100)</u>	<u>50,000</u>	<u>-</u>
Change in net assets	1,067,981	1,063,732	594,202	1,250,144	1,662,183	2,313,876
Net assets, beginning	16,466,916	14,670,340	21,480,563	20,324,404	37,947,479	34,994,744
Prior period adjustment	-	732,844	12	-	12	732,844
Net assets, beginning a restated	<u>16,466,911</u>	<u>15,403,184</u>	<u>21,574,560</u>	<u>20,324,404</u>	<u>38,041,476</u>	<u>35,727,588</u>
Net assets, ending	<u>\$ 17,534,897</u>	<u>\$ 16,466,916</u>	<u>\$ 22,074,777</u>	<u>\$ 21,574,548</u>	<u>\$ 39,609,674</u>	<u>\$ 38,041,464</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 business-type activities.

As a whole, the government's net assets increased by \$1,662,183 during the current fiscal year.

Governmental Activities. Governmental activities increased the City's net assets by \$1,067,981. Key elements of this increase were positive variances as compared to budgeted amounts for:

• Sales tax revenues	\$406,000
• Investment income	230,000
• Court fines	20,000
• Property taxes	18,000
• Police and Fire expenditures	526,000

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 \$6,236,030. Approximately 98.7 percent of this total amount, \$6,159,006 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 99.5 percent of the total governmental fund balance. The total fund balance of the General Fund was unreserved and amounted to \$6,204,006.

The fund balance of the City's General Fund decreased by \$3,009,484 during the current fiscal year. A large part of this decrease is due to street improvements made in 2007.

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 \$4,387,225. The decrease in net assets was \$1,935,000. 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, 2007, amounts to \$43,801,378 (net of accumulated depreciated). 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:

• Automated Meter Reading System (in progress)	\$ 540,000
• Police Vehicles	130,000
• Leaf Picker	165,000
• Street Improvements (2004 GO Bonds)	4,380,000
• Ambulance	155,000

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$14,195,050. The entire amount is debt backed in full faith and credit of the City.

The City issued no debt during the fiscal year-ended 2007.

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

Moody's Investors Service	A3	Standard and Poor's	A
---------------------------	----	---------------------	---

All of the City's bonds are insured, thus holding a Triple A credit rating from both Moody's and Standard and Poor's. Additional information on the City's long term-debt can be found in pages 45 – 48 of this report.

BUDGET FOR FISCAL YEAR-END 2007

**CITY OF FREDERICKSBURG
BUDGET COMPARISON FOR FISCAL YEARS 2008 AND 2007**

	2007 - 2008 Budget	% Increase (Decrease)	2006 - 2007 Budget
Revenues:			
General	\$ 9,169,000	(8.3)	\$ 8,459,700
Electric	12,339,000	7.5	11,470,000
Water and Sewer	3,676,500	0.5	3,659,500
Golf	1,395,000	2.3	1,363,800
Solid Waste	1,723,000	6.1	1,623,800
Emergency Medical Service	1,344,500	15.6	1,163,000
Drainage	373,400	0.1	373,000
Emergency Management	38,600	7.8	35,800
Debt Service	<u>638,200</u>	<u>0.5</u>	<u>635,200</u>
Total Revenues	<u>30,692,200</u>	<u>1.8</u>	<u>28,783,800</u>
Expenditures:			
General:			
Administrative	2,765,700	13.1	2,445,600
Police	3,030,800	7.8	2,812,400
Fire	602,800	1.4	594,400
Street	1,392,000	6.7	1,304,500
Park	1,071,700	(2.7)	1,101,600
Health	<u>94,000</u>	<u>10.7</u>	<u>84,900</u>
Total General	8,957,000	7.3	8,343,400
Electric	12,334,000	7.7	11,446,700
Water and Sewer	3,668,700	1.7	3,607,200
Golf	1,394,700	2.3	1,363,400
Solid Waste	1,533,600	2.4	1,497,700
Emergency Medical Service	1,337,700	15.1	1,162,600
Drainage	368,300	0.1	367,800
Emergency Management	38,400	8.5	35,400
Debt Service	<u>638,200</u>	<u>1.4</u>	<u>634,900</u>
Total Expenditures	<u>30,270,600</u>	<u>6.3</u>	<u>28,459,100</u>
Budgeted Excess of Revenues over Expenditures	<u>\$ 426,600</u>	<u>31.4</u>	<u>\$ 324,700</u>

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2008, the adopted property tax rate was decreased from \$.2566 to \$.2414 per \$100 of assessed valuation. Appraised values increased by \$200,652,193 to \$1,160,824,056. The portion of the tax rate set aside for "maintenance and operations" and for "debt service" is as follows:

	2007			2006		
	Appraised Value	Tax Rate	Tax Levy	Appraised Value	Tax Rate	Tax Levy
M & O	\$ 1,160,824,056	\$ 0.1606	\$ 1,839,653	\$ 960,171,863	\$ 0.1636	\$ 1,570,841
Debt Service	1,160,824,056	0.0808	925,554	960,171,863	0.0930	892,960
Totals		\$ 0.2414	\$ 2,765,207		\$ 0.2566	\$ 2,463,801

The maintenance and operations portion of the tax rate decreased in 2007 from \$.1636 to \$.1606. The related tax levy increased from \$1,570,841 to \$1,839,653.

The debt service portion of the tax rate decreased in 2007 from \$.0930 to \$.0808. The tax levy increased from \$892,960 to \$925,554.

Ad Valorem Tax Freeze

In November 2004, Fredericksburg voters approved a proposition that establishes an ad valorem tax freeze on the residence homesteads of persons who are disabled or 65 years of age or older. The tax freeze goes into effect in 2005. In general, the residence homestead taxes of disabled persons or persons 65 years of age and older are frozen at the 2004 dollar amount of taxes assessed on the eligible property.

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.

THIS PAGE LEFT BLANK INTENTIONALLY

BASIC FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Convention and Visitor Bureau
ASSETS				
Cash and Cash Equivalents	\$ 5,792,828	\$ 5,366,867	\$ 11,159,695	\$ 227,104
Receivables (net of allowance for uncollectibles)	1,244,226	2,458,202	3,702,428	10
Intergovernmental Receivables	86,750	7,004	93,754	-
Internal Balances	879,905	(879,905)	-	-
Due from GCHS	105,000	-	105,000	-
Inventories	-	1,094,209	1,094,209	-
Deferred Charges	12,569	201,175	213,744	-
Capital Assets:				
Land	2,965,385	1,089,607	4,054,992	-
Buildings	6,456,994	6,608,361	13,065,355	-
Improvements other than Buildings	12,652,832	36,516,907	49,169,739	-
Machinery and Equipment	6,587,410	7,680,072	14,267,482	70,823
Less: accumulated depreciation	(11,768,832)	(24,987,351)	(36,756,183)	(33,216)
Total Assets	<u>25,015,067</u>	<u>35,155,148</u>	<u>60,170,215</u>	<u>264,721</u>
LIABILITIES				
Accounts Payable	1,875,012	1,731,068	3,606,080	10,659
Intergovernmental Payable	65,321	328,232	393,553	-
Accrued Interest Payable	22,647	44,479	67,126	-
Deferred Revenues	118,875	-	118,875	-
Other Current Liabilities	43,029	368,977	412,006	-
Noncurrent Liabilities				
Due Within One Year	658,994	1,604,292	2,263,286	-
Due in More Than One Year	4,696,292	9,003,323	13,699,615	-
Total Liabilities	<u>7,480,170</u>	<u>13,080,371</u>	<u>20,560,541</u>	<u>10,659</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	11,195,665	17,690,737	28,886,402	-
Restricted for:				
Restricted for Debt Service	32,024	-	32,024	-
Restricted for Other Purposes	45,000	-	45,000	-
Unrestricted Net Assets	6,262,208	4,384,040	10,646,248	254,062
Total Net Assets	<u>\$ 17,534,897</u>	<u>\$ 22,074,777</u>	<u>\$ 39,609,674</u>	<u>\$ 254,062</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, 2007

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 2,631,700	\$ 81,333	\$ 52,227
Police	2,670,320	154,285	2,271
Emergency Management	34,310	-	-
Fire	518,921	50	165,762
Streets	1,800,518	7,676	-
Health	66,701	74,782	6,812
Parks and Recreation	1,203,063	290,732	-
Interest	210,307	-	-
Total Governmental Activities:	9,135,840	608,858	227,072
BUSINESS-TYPE ACTIVITIES:			
Electric	9,371,455	10,023,081	-
Water	2,763,801	3,329,059	-
Golf Fund	1,384,984	1,037,145	-
Solid Waste	1,737,067	1,766,210	-
Drainage	292,662	313,126	-
EMS Fund	1,326,045	819,816	-
Total Business-Type Activities:	16,876,014	17,288,437	-
TOTAL PRIMARY GOVERNMENT:	\$ 26,011,854	\$ 17,897,295	\$ 227,072
Component Unit:			
Convention and Visitors Bureau	\$ 877,567	\$ 10,844	\$ -
TOTAL COMPONENT UNITS:	\$ 877,567	\$ 10,844	\$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Miscellaneous Revenue

Investment Earnings

Gain on sale of real or personal property

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Convention and Visitor Bureau
\$ (2,498,140)	\$ -	\$ (2,498,140)	\$ -
(2,513,764)	-	(2,513,764)	-
(34,310)	-	(34,310)	-
(353,109)	-	(353,109)	-
(1,792,842)	-	(1,792,842)	-
14,893	-	14,893	-
(912,331)	-	(912,331)	-
(210,307)	-	(210,307)	-
<u>(8,299,910)</u>	<u>-</u>	<u>(8,299,910)</u>	<u>-</u>
-	651,626	651,626	-
-	565,258	565,258	-
-	(347,839)	(347,839)	-
-	29,143	29,143	-
-	20,464	20,464	-
-	(506,229)	(506,229)	-
-	<u>412,423</u>	<u>412,423</u>	<u>-</u>
<u>(8,299,910)</u>	<u>412,423</u>	<u>(7,887,487)</u>	<u>-</u>
-	-	-	(866,723)
-	-	-	(866,723)
2,310,431	-	2,310,431	-
3,605,886	-	3,605,886	-
408,612	-	408,612	-
1,404,617	-	1,404,617	932,864
24,474	-	24,474	-
41,359	1,139,679	1,181,038	-
292,231	-	292,231	793
272,381	-	272,381	-
1,007,900	(957,900)	50,000	-
<u>9,367,891</u>	<u>181,779</u>	<u>9,549,670</u>	<u>933,657</u>
1,067,981	594,202	1,662,183	66,934
16,466,916	21,480,563	37,947,479	187,128
-	12	12	-
<u>\$ 17,534,897</u>	<u>\$ 22,074,777</u>	<u>\$ 39,609,674</u>	<u>\$ 254,062</u>

CITY OF FREDERICKSBURG, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	General Fund	Debt Service	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 5,563,142	\$ 26,515	\$ 5,589,657
Taxes Receivable (net of allowances)	994,181	-	994,181
Receivables (net of allowance for uncollectibles)	72,985	-	72,985
Intergovernmental Receivables	86,750	-	86,750
Due from Other Funds	1,021,648	5,509	1,027,157
Note Receivable - GCHS	105,000	-	105,000
Total Assets	<u>\$ 7,843,706</u>	<u>\$ 32,024</u>	<u>\$ 7,875,730</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 1,254,474	\$ -	\$ 1,254,474
Wages and Salaries Payable	140,156	-	140,156
Intergovernmental Payable	65,321	-	65,321
Due to Other Funds	38,390	-	38,390
Deferred Revenues	98,330	-	98,330
Other Current Liabilities	43,029	-	43,029
Total Liabilities	<u>1,639,700</u>	<u>-</u>	<u>1,639,700</u>
Fund Balances:			
Reserved For:			
Debt Service	-	32,024	32,024
Unreserved Designated For:			
Capital Improvement-FMS	45,000	-	45,000
Unreserved and Undesignated:			
Reported in the General Fund	6,159,006	-	6,159,006
Total Fund Balances	<u>6,204,006</u>	<u>32,024</u>	<u>6,236,030</u>
Total Liabilities and Fund Balances	<u>\$ 7,843,706</u>	<u>\$ 32,024</u>	<u>\$ 7,875,730</u>

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

CITY OF FREDERICKSBURG, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

Total Fund Balances - Governmental Funds	\$	6,236,030
The City uses an internal service fund to charge the cost of self-insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.		156,369
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 \$24,259,307 and the accumulated depreciation was \$10,881,600. In addition, 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 the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		7,178,908
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2007 capital outlays and debt principal payments is to increase net assets.		5,077,923
The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,061,166)
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, 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 (decrease) net assets.		(53,167)
Net Assets of Governmental Activities	<u>\$</u>	<u>17,534,897</u>

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

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General Fund	Debt Service	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 1,667,809	\$ 623,816	\$ 2,291,625
General Sales and Use Taxes	3,605,886	-	3,605,886
Franchise Tax	408,612	-	408,612
Other Taxes	1,404,617	-	1,404,617
Licenses and Permits	64,974	-	64,974
Intergovernmental Revenue and Grants	200,028	-	200,028
Charges for Services	134,489	-	134,489
Fines	146,114	-	146,114
Special Assessments	20,000	-	20,000
Investment Earnings	289,826	2,405	292,231
Pavilions and Camping Fees	288,803	-	288,803
Rentals	41,061	-	41,061
Total Revenues	8,272,219	626,221	8,898,440
EXPENDITURES:			
Current:			
General Government:			
Administration	2,499,466	-	2,499,466
Public Safety:			
Police	2,516,676	-	2,516,676
Emergency Management	27,149	-	27,149
Fire	363,691	-	363,691
Streets	1,182,784	-	1,182,784
Health	73,567	-	73,567
Culture and Recreation:			
Parks and Recreation	939,462	-	939,462
Debt Service:			
Principal	76,131	424,544	500,675
Interest	17,359	210,307	227,666
Capital Outlay:			
Capital Outlay	4,857,069	-	4,857,069
Total Expenditures	12,553,354	634,851	13,188,205
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,281,135)	(8,630)	(4,289,765)
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	272,381	-	272,381
Transfers In	1,007,900	-	1,007,900
Total Other Financing Sources (Uses)	1,280,281	-	1,280,281
Net Change in Fund Balances	(3,000,854)	(8,630)	(3,009,484)
Fund Balance - October 1 (Beginning)	9,204,860	40,654	9,245,514
Fund Balance - September 30 (Ending)	\$ 6,204,006	\$ 32,024	\$ 6,236,030

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

CITY OF FREDERICKSBURG, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	(3,009,484)
The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets.		50,050
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2007 capital outlays and debt principal payments is to increase net assets.		5,077,923
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,061,166)
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, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		10,658
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>1,067,981</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,650,000	\$ 1,650,000	\$ 1,667,809	\$ 17,809
General Sales and Use Taxes	3,200,000	3,200,000	3,605,886	405,886
Franchise Tax	413,000	413,000	408,612	(4,388)
Other Taxes	1,240,000	1,240,000	1,404,617	164,617
Licenses and Permits	80,800	80,800	64,974	(15,826)
Intergovernmental Revenue and Grants	205,400	205,400	200,028	(5,372)
Charges for Services	130,000	130,000	134,489	4,489
Fines	125,800	125,800	146,114	20,314
Special Assessments	26,500	26,500	20,000	(6,500)
Investment Earnings	60,000	60,000	289,826	229,826
Pavilions and Camping Fees	309,000	309,000	288,803	(20,197)
Rentals	50,000	50,000	41,061	(8,939)
Total Revenues	7,490,500	7,490,500	8,272,219	781,719
EXPENDITURES:				
Current:				
General Government:				
Administration	2,445,600	2,445,600	2,499,466	(53,866)
Public Safety:				
Police	2,812,400	2,812,400	2,516,676	295,724
Emergency Management	35,400	35,400	27,149	8,251
Fire	594,400	594,400	363,691	230,709
Streets	1,304,500	1,304,500	1,182,784	121,716
Health	84,900	84,900	73,567	11,333
Culture and Recreation:				
Parks and Recreation	1,101,600	1,101,600	939,462	162,138
Debt Service:				
Principal	-	-	76,131	(76,131)
Interest	-	-	17,359	(17,359)
Capital Outlay:				
Capital Outlay	-	-	4,857,069	(4,857,069)
Total Expenditures	8,378,800	8,378,800	12,553,354	(4,174,554)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(888,300)	(888,300)	(4,281,135)	(3,392,835)
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	272,381	272,381
Transfers In	1,005,000	1,005,000	1,007,900	2,900
Total Other Financing Sources (Uses)	1,005,000	1,005,000	1,280,281	275,281
Net Change in Fund Balances	116,700	116,700	(3,000,854)	(3,117,554)
Fund Balance - October 1 (Beginning)	9,204,860	9,204,860	9,204,860	-
Fund Balance - September 30 (Ending)	\$ 9,321,560	\$ 9,321,560	\$ 6,204,006	\$ (3,117,554)

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007

Business-Type Activities -

Electric Water

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,599,077	\$ 718,749
Accounts Receivable-Net of Uncollectible Allowance	1,604,115	485,038
Due from Other Governments	-	-
Due from Other Funds	2,280,000	-
Due from Others	-	-
Inventories	904,365	158,001
Deferred Charges	-	142,127
Total Current Assets	7,387,557	1,503,915

Noncurrent Assets:

Capital Assets:

Land	100,117	474,542
Buildings	1,983,608	2,385,773
Accumulated Depreciation - Buildings	(639,756)	(1,122,205)
Improvements other than Buildings	7,902,520	20,112,852
Accumulated Depreciation - Other Improvements	(6,218,943)	(6,371,440)
Machinery and Equipment	1,509,980	1,861,182
Accumulated Depreciation - Machinery & Equipment	(1,439,114)	(1,743,463)
Total Noncurrent Assets	3,198,412	15,597,241

Total Assets

10,585,969 17,101,156

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

					Governmental Activities -	
Golf Fund	Solid Waste	Drainage	EMS Fund	Total Enterprise Funds	Internal Service Fund	
\$ (33,951)	\$ 1,744,645	\$ 1,105,933	\$ (767,586)	\$ 5,366,867	203,171	
660	104,209	6,153	258,027	2,458,202	1,320	
-	-	-	7,004	7,004	-	
-	-	2,765	7,004	2,289,769	45,276	
-	-	-	-	-	21,602	
31,843	-	-	-	1,094,209	-	
32,819	-	26,229	-	201,175	-	
31,371	1,848,854	1,141,080	(495,551)	11,417,226	271,369	
305,399	209,549	-	-	1,089,607	-	
1,803,856	66,458	-	368,666	6,608,361	-	
(671,070)	(37,948)	-	(73,065)	(2,544,044)	-	
1,235,964	2,944,845	4,313,665	7,061	36,516,907	-	
(178,526)	(2,192,534)	(949,922)	(1,553)	(15,912,918)	-	
1,062,919	2,316,343	-	929,648	7,680,072	-	
(960,813)	(1,712,633)	-	(674,366)	(6,530,389)	-	
2,597,729	1,594,080	3,363,743	556,391	26,907,596	-	
2,629,100	3,442,934	4,504,823	60,840	38,324,822	271,369	

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007

	Business-Type Activities -	
	Electric	Water
LIABILITIES		
Current Liabilities:		
Accounts Payable	882,842	116,149
Wages and Salaries Payable	31,569	33,371
Compensated Absences Payable	109,573	101,231
Intergovernmental Payable	269,885	36,100
Due to Other Funds	18,605	285,729
Due to Others	-	32,635
Accrued Interest Payable	-	26,358
Bonds Payable - Current:		
General Obligation Bonds Payable	-	667,370
Certificates of Obligation Payable	-	172,800
Revenue Bonds Payable	-	185,000
Capital Leases Payable - Current	-	-
Other Current Liabilities	247,178	95,096
Total Current Liabilities	1,559,652	1,751,839
NonCurrent Liabilities:		
Bonds Payable - Non-Current:		
General Obligation Bonds Payable	-	1,138,388
Certificate of Obligation Payable	-	1,200,000
Revenue Bonds Payable	-	2,260,000
Unamortized Premiums (Discounts) on Bonds	-	(21,440)
Estimated liability for landfill closure & care	-	-
Total Noncurrent Liabilities	-	4,576,948
Total Liabilities	1,559,652	6,328,787
NET ASSETS		
Investments in Capital Assets, Net of Debt	3,198,412	9,995,123
Unrestricted Net Assets	5,827,905	777,246
Total Net Assets	\$ 9,026,317	\$ 10,772,369

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

					Governmental Activities -	
Golf Fund	Solid Waste	Drainage	EMS Fund	Total Enterprise Funds	Internal Service Fund	
64,488	82,983	38,504	15,899	1,200,865	115,000	
21,821	19,271	-	27,014	133,046	-	
49,892	61,131	-	42,695	364,522	-	
10,641	11,606	-	-	328,232	-	
2,004,774	22,432	833,745	4,389	3,169,674	-	
-	-	-	-	32,635	-	
6,419	-	10,863	839	44,479	-	
123,352	-	45,356	-	836,078	-	
70,000	-	187,200	-	430,000	-	
-	-	-	-	185,000	-	
33,214	-	-	120,000	153,214	-	
18,103	8,600	-	-	368,977	-	
2,402,704	206,023	1,115,668	210,836	7,246,722	115,000	
210,592	-	609,986	-	1,958,966	-	
1,050,000	-	1,300,000	-	3,550,000	-	
-	-	-	-	2,260,000	-	
(2,618)	-	(12,341)	-	(36,399)	-	
-	1,270,756	-	-	1,270,756	-	
1,257,974	1,270,756	1,897,645	-	9,003,323	-	
3,660,678	1,476,779	3,013,313	210,836	16,250,045	115,000	
1,113,189	1,594,080	1,233,542	556,391	17,690,737	-	
(2,144,767)	372,075	257,968	(706,387)	4,384,040	156,369	
\$ (1,031,578) \$	1,966,155 \$	1,491,510 \$	(149,996) \$	22,074,777 \$	156,369	

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Business-Type Activities -	
	Electric	Water
OPERATING REVENUES:		
Licenses and Permits	\$ 11,799	\$ -
Water Sales	-	1,855,669
Sewer Sales	-	1,473,390
Garbage Collection Fees	-	-
Electric Sales	10,023,081	-
EMS Fees	-	-
Property Tax Revenues	-	-
Donations to EMS	-	-
Golf Course Fees	-	-
Investment Earnings	81,318	139,605
Rents and Royalties	29,876	4,332
Drainage Utilities	-	-
Other Revenue	217,589	-
Total Operating Revenues	<u>10,363,663</u>	<u>3,472,996</u>
OPERATING EXPENSES:		
Proprietary Fund Function - Water		
Personnel Services - Salaries and Wages	-	718,767
Personnel Services - Employee Benefits	-	219,840
Purchased Professional & Technical Services	-	138,170
Purchased Property Services	-	630,408
Other Operating Expenses	-	96,486
Supplies	-	68,046
Total Proprietary Fund Function - Water	<u>-</u>	<u>1,871,717</u>
Proprietary Fund Function - Sanitation		
Personnel Services - Salaries and Wages	-	-
Personnel Services - Employee Benefits	-	-
Purchased Professional & Technical Services	-	-
Purchased Property Services	-	-
Other Operating Expenses	-	-
Supplies	-	-
Total Proprietary Fund Function - Sanitation	<u>-</u>	<u>-</u>
Proprietary Fund Function - Electric		
Personnel Services - Salaries and Wages	737,694	-
Personnel Services - Employee Benefits	205,027	-
Purchased Professional & Technical Services	139,909	-
Purchased Property Services	263,257	-
Other Operating Expenses	7,685,568	-
Supplies	59,414	-
Total Proprietary Fund Function - Electric	<u>9,090,869</u>	<u>-</u>
Proprietary Fund Function - Golf		
Personnel Services - Salaries and Wages	-	-
Personnel Services - Employee Benefits	-	-
Purchased Professional & Technical Services	-	-
Purchased Property Services	-	-

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

					Governmental Activities -	
Golf Fund	Solid Waste	Drainage	EMS Fund	Total Enterprise Funds	Internal Service Fund	
\$	- \$	- \$	- \$	- \$	11,799	\$ -
-	-	-	-	-	1,855,669	-
-	-	-	-	-	1,473,390	-
-	1,766,210	-	-	-	1,766,210	-
-	-	-	-	-	10,023,081	-
-	-	-	794,689	794,689	-	-
-	-	313,126	-	313,126	-	-
-	-	-	25,127	25,127	-	-
1,037,145	-	-	-	1,037,145	-	-
25,798	69,152	68,856	125	384,854	8,747	-
-	4,800	-	-	39,008	-	-
-	-	71,013	-	71,013	968,290	-
-	45	-	395,371	613,005	35,017	-
<u>1,062,943</u>	<u>1,840,207</u>	<u>452,995</u>	<u>1,215,312</u>	<u>18,408,116</u>	<u>1,012,054</u>	
-	-	-	-	718,767	-	-
-	-	-	-	219,840	-	-
-	-	-	-	138,170	-	-
-	-	-	-	630,408	-	-
-	-	-	-	96,486	-	-
-	-	-	-	68,046	-	-
-	-	-	-	<u>1,871,717</u>	-	-
-	455,175	-	-	455,175	-	-
-	148,328	-	-	148,328	-	-
-	54,655	-	-	54,655	-	-
-	104,986	-	-	104,986	-	-
-	515,178	-	-	515,178	962,004	-
-	95,124	-	-	95,124	-	-
-	<u>1,373,446</u>	-	-	<u>1,373,446</u>	<u>962,004</u>	
-	-	-	-	737,694	-	-
-	-	-	-	205,027	-	-
-	-	-	-	139,909	-	-
-	-	-	-	263,257	-	-
-	-	-	-	7,685,568	-	-
-	-	-	-	59,414	-	-
-	-	-	-	<u>9,090,869</u>	-	-
479,976	-	-	-	479,976	-	-
156,214	-	-	-	156,214	-	-
4,293	-	-	-	4,293	-	-
223,609	-	-	-	223,609	-	-

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Business-Type Activities -

	Electric	Water
Other Operating Expenses	-	-
Supplies	-	-
Total Proprietary Fund Function - Golf	-	-
Proprietary Fund Function - EMS		
Personnel Services - Salaries and Wages	-	-
Personnel Services - Employee Benefits	-	-
Purchased Professional & Technical Services	-	-
Purchased Property Services	-	-
Other Operating Expenses	-	-
Supplies	-	-
Total Proprietary Fund Function - EMS	-	-
Proprietary Fund Function - Drainage		
Purchased Professional & Technical Services	-	-
Depreciation	280,586	602,264
Total Operating Expenses	9,371,455	2,473,981
Operating Income (Loss)	992,208	999,015

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

					Governmental Activities -	
				Total		
Golf Fund	Solid Waste	Drainage	EMS Fund	Enterprise Funds	Internal Service Fund	
77,303	-	-	-	77,303	-	-
206,434	-	-	-	206,434	-	-
1,147,829	-	-	-	1,147,829	-	-
-	-	-	677,164	677,164	-	-
-	-	-	190,270	190,270	-	-
-	-	-	134,695	134,695	-	-
-	-	-	110,133	110,133	-	-
-	-	-	39,251	39,251	-	-
-	-	-	34,144	34,144	-	-
-	-	-	1,185,657	1,185,657	-	-
-	-	443	-	443	-	-
151,353	363,621	193,633	139,549	1,731,006	-	-
1,299,182	1,737,067	194,076	1,325,206	16,400,967	962,004	-
(236,239)	103,140	258,919	(109,894)	2,007,149	50,050	-

CITY OF FREDERICKSBURG, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Business-Type Activities -	
	Electric	Water
NON-OPERATING REVENUES (EXPENSES):		
Gain on Sale of Property	-	-
Interest Expense - Non-Operating	-	(289,820)
Total Non-operating Revenue (Expenses)	-	(289,820)
Income (Loss) Before Transfers	992,208	709,195
Transfers Out	(632,000)	(214,300)
Change in Net Assets	360,208	494,895
Total Net Assets - October 1 (Beginning)	8,666,102	10,277,466
Prior Period Adjustment	7	8
Total Net Assets - September 30 (Ending)	\$ 9,026,317	\$ 10,772,369

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

					Governmental Activities -
				Total Enterprise Funds	Internal Service Fund
Golf Fund	Solid Waste	Drainage	EMS Fund		
-	20,000	-	-	20,000	-
(85,802)	-	(98,586)	(839)	(475,047)	-
(85,802)	20,000	(98,586)	(839)	(455,047)	-
(322,041)	123,140	160,333	(110,733)	1,552,102	50,050
-	(111,600)	-	-	(957,900)	-
(322,041)	11,540	160,333	(110,733)	594,202	50,050
(709,533)	1,954,614	1,331,176	(39,262)	21,480,563	106,319
(4)	1	1	(1)	12	-
<u>\$ (1,031,578)</u>	<u>\$ 1,966,155</u>	<u>\$ 1,491,510</u>	<u>\$ (149,996)</u>	<u>\$ 22,074,777</u>	<u>\$ 156,369</u>

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Business-Type Activities	
	Electric	Water
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Customers	\$ 10,743,069	\$ 3,738,625
Cash Payments to Employees for Services	(942,721)	(938,607)
Cash Payments for Suppliers	(8,272,419)	(1,048,816)
Net Cash Provided by (Used for) Operating Activities	<u>1,527,929</u>	<u>1,751,202</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Operating Transfer Out	(632,000)	(214,300)
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Acquisition of Capital Assets	(175,763)	(1,106,789)
Principal Paid on Capital Debt	-	(1,235,476)
Interest Paid on Capital Debt	-	(289,820)
Lease Proceeds	-	-
Proceeds From the Sale of Equipment	-	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(175,763)</u>	<u>(2,632,085)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	720,166	(1,095,183)
Cash and Cash Equivalents at Beginning of the Year:	1,878,911	1,813,932
Cash and Cash Equivalents at the End of the Year:	<u>\$ 2,599,077</u>	<u>\$ 718,749</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>		
Operating Income (Loss):	\$ 992,208	\$ 999,015
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	280,586	602,264
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	398,228	296,266
Decrease (increase) in Inventories	(281,147)	(8,275)
Decrease (increase) in Due From Other Funds	-	-
Decrease (increase) in Due From Other Funds	760,000	(7,020)
Decrease (increase) in Deferred Charges	-	117,308
Increase (decrease) in Accounts Payable	(154,633)	(932)
Increase (decrease) in Due To Other Funds	(732,702)	(262,814)
Increase (decrease) in Due To Other Governments	269,885	36,100
Increase (decrease) in Deferred Revenue	(18,822)	(30,637)
Increase (decrease) in Compensated Absences Pay.	14,326	9,927
Increase (decrease) in Claims Payable	-	-
Increase in Est. Liab. for Landfill Closure	-	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,527,929</u>	<u>\$ 1,751,202</u>

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

					Governmental Activities -	
				Total	Internal	
Golf Fund	Solid Waste	Drainage	EMS Fund	Enterprise Funds	Service Fund	
\$ 1,062,283	\$ 1,857,044	\$ 453,243	\$ 1,339,885	\$ 19,194,149	\$ 1,010,734	
(636,190)	(603,503)	-	(867,434)	(3,988,455)	-	
(1,226,678)	501,561	905,649	(1,200,052)	(10,340,755)	(965,883)	
(800,585)	1,755,102	1,358,892	(727,601)	4,864,939	44,851	
-	(111,600)	-	-	(957,900)	-	
(1,193)	(713,624)	(882,042)	(159,146)	(3,038,557)	-	
(145,371)	-	(248,511)	-	(1,629,358)	-	
(85,802)	-	(98,586)	(839)	(475,047)	-	
-	-	-	120,000	120,000	-	
-	20,000	-	-	20,000	-	
(232,366)	(693,624)	(1,229,139)	(39,985)	(5,002,962)	-	
(1,032,951)	949,878	129,753	(767,586)	(1,095,923)	44,851	
999,000	794,767	976,180	-	6,462,790	158,320	
\$ (33,951)	\$ 1,744,645	\$ 1,105,933	\$ (767,586)	\$ 5,366,867	\$ 203,171	
\$ (236,239)	\$ 103,140	\$ 258,919	\$ (109,894)	\$ 2,007,149	\$ 50,050	
151,353	363,621	193,633	139,549	1,731,006	-	
(660)	16,837	248	131,577	842,496	(1,320)	
3,879	-	-	-	(285,543)	-	
-	-	-	-	-	(28,879)	
-	1,087,731	5,339	175,897	2,021,947	-	
5,935	-	29,511	-	152,754	-	
68,619	(45,062)	37,497	54,063	(40,448)	-	
(759,134)	(108,556)	833,745	(1,086,935)	(2,116,396)	-	
10,641	18,300	-	-	334,926	-	
-	-	-	-	(49,459)	-	
(44,979)	(46,687)	-	(31,858)	(99,271)	-	
-	-	-	-	-	25,000	
-	365,778	-	-	365,778	-	
\$ (800,585)	\$ 1,755,102	\$ 1,358,892	\$ (727,601)	\$ 4,864,939	\$ 44,851	

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2007

		Agency Funds
<hr/>		
ASSETS		
Cash and Cash Equivalents	\$	<u>217,830</u>
Total Assets	\$	<u><u>217,830</u></u>
LIABILITIES		
Accounts Payable	\$	<u>2,779</u>
Total Liabilities		<u>2,779</u>
NET ASSETS		
Restricted for Market Square		214,926
Restricted for Firemen's Relief		<u>125</u>
Total Net Assets	\$	<u><u>217,830</u></u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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 major 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 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, balances in public funds investment pools, and U.S. Governments and agency instruments with initial maturities of one year or less. Short-term investments are stated at cost plus amortized discounts which approximates market value.

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, 2007. 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/Collector's office.

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 \$200 (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 is 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 240 hours of PTO over into the next fiscal 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 \$(53,167) difference are as follows:

Deferred revenues	\$	(20,545)
Compensated absences		<u>(32,622)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	<u>(53,167)</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 \$10,658 difference are as follows:

Reclass delinquent property taxes collected in current year	\$	43,280
Adjust compensated absences		<u>(32,622)</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>10,658</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, 2007, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 2,132,618	27
Portfolio weighted average maturity (days)	\$ 2,132,618	27

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.

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, 2007, \$9,200,824 of the City's \$9,300,824 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$100,000 was covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2007, were rated as follows:

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

4. DETAILED NOTES ON ALL FUNDS

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 \$100,000;
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.

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				Total
	General	Other Governmental Funds	Electric	Water and Sewer	Drainage	Other Funds	
Receivables:							
Property taxes	\$ 994,181	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 994,181
Notes	105,000	-	-	-	-	-	105,000
Due from other governments	86,750	-	-	-	-	-	86,750
Customer accounts	-	-	1,619,140	489,036	6,232	414,030	2,528,438
Other	72,985	-	-	-	-	7,004	79,989
Gross receivables	1,258,916	-	1,619,140	489,036	6,232	421,034	3,794,358
Less: allowance for uncollectibles	8,780	-	15,025	3,998	79	51,134	79,016
Net total receivables	\$ 1,250,136	\$ -	\$ 1,604,115	\$ 485,038	\$ 6,153	\$ 369,900	\$ 3,715,342

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		
Fines receivable	\$	62,550
Delinquent property taxes receivable		<u>34,500</u>
Total	\$	<u>97,050</u>

Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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	6,444,880	12,114	-	6,456,994
Improvements other than buildings	8,268,384	4,384,448	-	12,652,832
Equipment	6,580,658	198,866	192,114	6,587,410
Total capital assets being depreciated	<u>21,293,922</u>	<u>4,595,428</u>	<u>192,114</u>	<u>25,697,236</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>10,881,600</u>	<u>1,061,166</u>	<u>173,934</u>	<u>11,768,832</u>
Total capital assets being depreciated, net	<u>10,412,322</u>	<u>3,534,262</u>	<u>18,180</u>	<u>13,928,404</u>
Governmental activities capital assets, net	\$ <u>13,397,707</u>	<u>3,534,262</u>	<u>18,180</u>	<u>16,913,789</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	1,089,607	-	-	1,089,607
Total assets not being depreciated	<u>1,089,607</u>	<u>-</u>	<u>-</u>	<u>1,089,607</u>
Capital assets, being depreciated:				
Buildings	6,593,715	14,646	-	6,608,361
Improvements other than buildings	33,867,323	2,649,583	-	36,516,906
Equipment	7,432,552	374,328	126,808	7,680,072
Total capital assets being depreciated	<u>47,893,590</u>	<u>3,038,557</u>	<u>126,808</u>	<u>50,805,339</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>23,383,159</u>	<u>1,731,006</u>	<u>126,808</u>	<u>24,987,357</u>
Total capital assets being depreciated, net	<u>24,510,431</u>	<u>1,307,551</u>	<u>-</u>	<u>25,817,982</u>
Business-type activities capital assets, net	<u>25,600,038</u>	<u>1,307,551</u>	<u>-</u>	<u>26,907,589</u>

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	\$	141,910
Police		141,800
Fire		147,932
Streets		363,498
Parks and recreation		264,795
Health & Emergency Mgmt.		1,231
		<hr/>
Total depreciation expense – governmental activities	\$	<u>1,061,166</u>

Business-type activities:

Electric	\$	280,586
Water and Sewer		602,264
Golf		151,353
Landfill		363,621
EMS		139,549
Drainage Utilities		193,633
		<hr/>
Total depreciation expense – business-type activities	\$	<u>1,731,006</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2007, is as follows:

GENERAL FUND	<u>DUE TO</u>	<u>DUE FROM</u>
Drainage	2,765	833,745
Debt Svc.	5,509	-
Emer. Mgmt.	-	526
EMS	7,004	-
Hosp. Insurance	22,587	-
	<hr/>	<hr/>
	37,865	834,271
ELECTRIC FUND		
Water & Sewer	-	280,000
Golf	-	2,000,000
Hospital Insurance	3,665	-
	<hr/>	<hr/>
	3,665	2,280,000
WATER FUND		
Electric	280,000	-
Hospital Insurance	5729	-
	<hr/>	<hr/>
	285,729	-
GOLF FUND		
Electric	2,000,000	-
Hospital Insurance	4,774	-
	<hr/>	<hr/>
	2,004,774	-

SOLID WASTE		
Hospital Insurance	4,132	-
	<u>4,132</u>	<u>-</u>
EMS FUND		
General Fund	-	7,004
Hospital Insurance	4,389	-
	<u>4,389</u>	<u>7,004</u>
EMER MGMT FUND		
General Fund	526	-
	<u>526</u>	<u>-</u>
HOSPITAL INSURANCE		
General Fund	-	22,587
Electric	-	3,665
Water & Sewer	-	5,729
Golf	-	4,774
Solid Waste	-	4,132
EMS	-	4,389
	<u>-</u>	<u>45,276</u>
DRAINAGE FUND		
General Fund	833,745	2,765
	<u>833,745</u>	<u>2,765</u>
DEBT SERVICE		
General Fund	-	5,509
	<u>-</u>	<u>5,509</u>
TOTAL DUE TO/DUE FROM	<u>3,174,825</u>	<u>3,174,825</u>

The balance of \$280,000 due to the Electric Fund from the Water and Sewer Fund resulted from loans made to establish working capital when the fund was first created.

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

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:

Transfers Out:	Transfers In	
	General	Total
Electric	\$ 632,000	\$ 632,000
Water and sewer	214,300	214,300
Landfill	111,600	111,600
Tourism land repayment	50,000	50,000
Total Transfers	<u>\$ 1,007,900</u>	<u>\$ 1,007,900</u>

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 2007, 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 amounts:

Electric	\$ 632,000
Water and sewer	214,300
Landfill	111,600

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, 2007 were as follows:

Year Ending September 30,	Governmental Activities	Business-type Activities
2008	\$ 125,711	\$ 49,884
2009	99,333	49,884
2010	99,333	32,221
2011	99,333	32,221
2012	67,111	-
2013	67,111	-
Total minimum lease payments	557,932	164,210
Less: amount representing interest	57,650	10,997
Present value of minimum lease payments	\$ 500,282	\$ 153,213

DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 5,399,550	\$ -	\$ 424,544	\$ 4,975,006	\$ 579,845
Total bonds payable	5,399,550	-	424,544	4,975,006	579,845
Capitalized leases	456,411	-	76,131	380,280	79,149
Compensated absences	332,760	35,628	3,006	365,382	-
Total governmental Activities	\$ 6,188,721	\$ 25,628	\$ 503,681	\$ 5,720,668	\$ 658,994
Business-type activities					
Certificates of obligation:					
Certificates of obligation	\$ 4,390,000	\$ -	\$ 410,000	\$ 3,980,000	\$ 430,000
Less: discount on bonds	(29,384)	-	(5,650)	(23,734)	-
Total certificates of Obligation	4,334,157	-	404,350	3,929,807	430,000
General obligation bonds:					
General obligation bonds	3,745,500	-	950,456	2,795,044	834,078
Less: discount on bonds	(15,895)	-	(3,229)	(12,666)	-
Less: deferred amount on Refundings	(93,720)	-	(48,821)	(44,899)	-
Total bonds payable	3,635,885	-	898,406	2,737,479	834,078
Revenue Bonds:					
Revenue bonds	2,625,000	-	180,000	2,445,000	185,000
Total revenue bonds	2,625,000	-	180,000	2,445,000	185,000
Capitalized leases	50,000	120,000	16,786	153,214	47,220
Compensated absences	310,075	54,448	-	364,523	291,618
Total business-type Activities	\$ 10,884,193	\$ 174,448	\$ 1,499,542	\$ 9,559,099	\$ 523,838
Long-term liabilities	\$ 17,072,914	\$ 210,076	\$ 2,003,223	\$ 15,279,767	\$ 2,446,910

Governmental activities long-term liabilities at September 30, 2007, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
1998 General Obligation Bonds	\$ 1,167,600	3.40%-4.40%	\$ 715,667
2004 General Obligation Bonds	5,070,000	1.35%-4.32%	4,259,339
			\$ 4,975,006

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

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, 2007, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
1998 Certificate of Obligation	\$ 5,775,000	5.50% to 8.50%	\$ 2,860,000
1999 Certificate of Obligation	5,140,000	3.40% to 4.40%	1,120,000
1998 General Obligation Bonds	3,002,400	4.30% to 5.25%	2,139,702
2004 General Obligation Bonds	780,000	1.35% to 4.32%	655,342
2003 Revenue Bonds	2,975,000	1.61% to 4.40%	<u>2,445,000</u>
			<u>\$ 9,220,044</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2007, are as follows:

September 30,	Principal	General Obligation Bonds Interest	Total
2008	\$ 579,845	\$ 180,379	\$ 760,224
2009	602,026	161,385	763,411
2010	402,563	140,749	543,312
2011	410,695	127,511	538,206
2012-2017	1,781,068	438,050	2,219,118
2018-2019	<u>1,198,809</u>	<u>81,164</u>	<u>1,279,973</u>
	<u>\$ 4,975,006</u>	<u>\$ 1,129,238</u>	<u>\$ 6,104,244</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, 2007, are as follows:

<u>September 30,</u>	<u>Principal</u>	General Obligation Bonds, Certificates of Obligation and Revenue Bonds <u>Interest</u>	<u>Total</u>
2008	\$ 1,430,156	\$ 373,818	\$ 1,803,974
2009	1,492,973	318,014	1,810,987
2010	952,438	258,508	1,210,946
2011	3,218,931	574,418	3,793,349
2012-2016	1,067,136	70,193	1,137,329
2017-2019	1,058,410	220,100	1,278,510
	<u>\$ 9,220,044</u>	<u>\$ 1,815,051</u>	<u>\$ 11,035,095</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 (as of April 19, 2006).

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 of his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate 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, 2006 valuation is effective for rates beginning January 2008.)

(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	12/31/06	12/31/05
Actuarial value of assets	\$ 12,177,379	\$ 10,933,880
Actuarial accrued liability	15,323,340	13,774,834
Percentage funded	79.47%	79.4%
Unfunded(over-funded)		
actuarial accrued liability (UAAL)	3,145,961	2,840,954
Annual covered payroll	5,556,544	5,473,601
UAAL as a percentage of covered payroll	56.2%	51.9%
Net pension obligation		
(NPO) at the beginning of period		-
Annual Pension Cost:		
Annual required contribution (ARC)	566,342	560,915
Contributions made	566,342	560,915
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	-	25 Years – Open Period
Asset Valuation Method	-	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation at	-	3.5%

(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 (Fund), 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. The Fund is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2007, there were 180 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, 2007, the Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,866
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,947
Active Participants (Vested and Nonvested)	<u>4,410</u>
	<u>8,223</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). 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, 2007.

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 \$1,270,756 as of September 30, 2007, which is based on 77.89% usage of current open cells and 22.11% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2056. It is estimated that an additional \$1,086,614 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, 2007. 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.