

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2009

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Governmental Fund Financial Statements:	
Balance Sheet	14
Reconciliation of Balance Sheet to Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16-17
Reconciliation of Statement of Revenues to Statement of Activities	18
Proprietary Fund Financial Statements:	
Statement of Net Assets	19-22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	23-24
Statement of Cash Flows	25-28
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	29
Notes to the Financial Statements	30-51
 <u>Supplementary Information</u>	
Budgetary Comparison Schedule - General Fund	52

Klein, Kraus and Company, LLC

Certified Public Accountants

1302 North Llano ~ P.O. Box 2211

Fredericksburg, Texas 78624

830/997-5592 ~ Fax 830/990-2692

kkcpa@austin.rr.com

Independent Auditor's Report

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

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other Required Supplementary Information such as budgetary comparison information presented on pages 3 through 10 and page 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Klein, Kraus and Company, LLC

Klein, Kraus and Company, LLC

January 28, 2010

Management's Discussion and Analysis

As management of the City of Fredericksburg, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2009, by \$42,322,753 (net assets). Of this amount, \$15,570,942 (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 \$343,632.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,756,622. Approximately 99.86 percent of the total amount, \$5,748,631 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2009, unreserved fund balance for the General Fund was \$5,748,631 or 55.50 percent of the current year's total General Fund expenditures of \$10,357,203.

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 – 28 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 30 – 51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$42,322,753 as of September 30, 2009, compared to \$41,939,120 as of September 30, 2008.

CITY OF FREDERICKSBURG’S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 7,259,103	\$ 7,709,872	\$ 12,187,771	\$ 14,506,371	\$ 19,446,877	\$ 22,216,243
Capital assets	16,321,075	17,285,762	27,894,384	27,193,765	44,215,459	44,479,527
Total assets	<u>23,580,181</u>	<u>24,995,634</u>	<u>40,082,155</u>	<u>41,700,136</u>	<u>63,662,336</u>	<u>66,695,770</u>
Current liabilities	1,246,290	1,208,546	2,939,238	3,357,977	4,185,528	4,566,523
Noncurrent liabilities	4,341,051	4,806,413	12,813,007	15,383,718	17,154,058	20,190,131
Total liabilities	<u>5,587,341</u>	<u>6,014,959</u>	<u>15,752,245</u>	<u>18,741,695</u>	<u>21,339,586</u>	<u>24,756,654</u>
Net Assets:						
Invested in capital assets, Net of related debt	11,670,434	12,091,320	15,081,377	11,810,047	26,751,811	23,901,367
Restricted	-	-	-	-	-	-
Unrestricted	<u>6,322,407</u>	<u>6,889,355</u>	<u>9,248,535</u>	<u>11,148,398</u>	<u>15,570,942</u>	<u>18,037,753</u>
Total net assets	<u>\$ 17,992,840</u>	<u>\$ 18,980,675</u>	<u>\$ 24,329,912</u>	<u>\$ 22,958,445</u>	<u>\$ 42,322,753</u>	<u>\$ 41,939,120</u>

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

CITY OF FREDERICKSBURG'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 742,605	\$ 668,167	\$ 20,753,458	\$ 21,264,738	21,496,063	\$ 21,932,905
Operating grants & contributions	596,905	523,653	-	-	596,905	523,653
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	2,723,317	2,470,241	-	-	2,723,317	2,470,241
Sales taxes	3,660,650	3,810,613	-	-	3,660,650	3,810,613
Franchise taxes	458,438	437,162	-	-	458,438	437,162
Other taxes	1,637,522	1,556,718	-	-	1,637,522	1,556,718
Miscellaneous Revenue	75,989	158,368	384,420	453,826	460,409	612,194
Investments earnings	36,663	138,723	150,179	215,022	186,842	353,745
Gain (loss) on sale of capital assets	-	-	-	-	-	-
Total revenues	<u>9,932,089</u>	<u>9,763,645</u>	<u>21,288,057</u>	<u>21,933,586</u>	<u>31,220,146</u>	<u>31,697,231</u>
Expenses:						
Administrative	3,042,675	2,499,627	-	-	3,042,675	2,499,627
Police	2,995,771	2,970,290	-	-	2,995,771	2,970,290
Fire	644,326	619,208	-	-	644,326	619,208
Streets	2,113,294	1,732,382	-	-	2,113,294	1,732,382
Parks	2,169,795	1,358,910	-	-	2,169,795	1,358,910
Health	76,758	79,388	-	-	76,758	79,388
Emergency Management	84,050	36,066	-	-	84,050	36,066
Interest on long-term Debt						
Debt	166,112	168,096	-	-	166,112	168,096
Electric	-	-	10,820,712	11,945,643	10,820,712	11,945,643
Water and sewer	-	-	3,262,748	3,011,919	3,262,748	3,011,919
Golf	-	-	1,441,090	1,376,493	1,441,090	1,376,493
Landfill	-	-	1,443,660	1,721,247	1,443,660	1,721,247
EMS	-	-	1,576,752	1,537,030	1,576,752	1,537,030
Drainage utilities	-	-	303,328	311,486	303,328	311,486
Total expenses	<u>11,292,781</u>	<u>9,463,967</u>	<u>18,848,290</u>	<u>19,903,818</u>	<u>30,141,071</u>	<u>29,367,785</u>
Increase (decrease) in net assets before transfers	<u>(2,096,134)</u>	<u>299,678</u>	<u>2,439,767</u>	<u>2,029,768</u>	<u>1,079,075</u>	<u>2,329,446</u>
Transfers	<u>1,068,300</u>	<u>1,146,100</u>	<u>(1,068,300)</u>	<u>(1,146,100)</u>	<u>0</u>	<u>-</u>
Change in net assets	<u>(292,392)</u>	<u>1,445,778</u>	<u>1,371,467</u>	<u>883,668</u>	<u>1,079,075</u>	<u>2,329,446</u>
Net assets, beginning	18,980,675	17,534,897	22,958,445	22,074,777	41,939,120	39,609,674
Prior period adjustment	<u>(695,442)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(695,442)</u>	<u>-</u>
Net assets, beginning	<u>18,285,233</u>	<u>17,534,897</u>	<u>22,958,445</u>	<u>22,074,777</u>	<u>41,939,120</u>	<u>39,609,674</u>
Net assets, ending	<u>\$ 17,992,841</u>	<u>\$ 18,980,675</u>	<u>\$ 24,329,912</u>	<u>\$ 22,958,445</u>	<u>\$ 42,322,753</u>	<u>\$ 41,939,120</u>

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 \$343,633 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,756,622. Approximately 99.86 percent of this total amount, \$5,748,631 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 99.86 percent of the total governmental fund balance. The total fund balance of the General Fund was unreserved and amounted to \$5,748,631.

The fund balance of the City's General Fund decreased by \$744,016 during the current fiscal year.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$9,248,535. Net assets of the City's Enterprise Funds increased by \$636,024 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Prior Period Adjustments. There were two prior period adjustments posted directly to beginning fund balance.

The first adjustment was necessary to record prior year's funding of Emergency Medical Services operations from the General Fund. The adjustment restates the beginning of year fund balances by reducing the fund balance in the General Fund by \$735,442 and by increasing the fund Balance in Emergency Medical Services by \$735,442.

The second adjustment was necessary to correct for revenue posted to the Market Square Trust that should have been recorded to the General Fund in the prior year. The adjustment restates the beginning of year fund balances by reducing the fund balance in the Market Square Trust Fund by \$40,000 and by increasing the fund balance in the General Fund by \$40,000.

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2009, amounts to \$44,214,173 (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:

• Water & Sewer Improvements (2008 Tax Lmted. Notes)	
- Boot Ranch Effluent	\$ 71,000
- East Side Sewer	1,342,000
- Goehmann Booster Station	100,000
- Hill Country Campus	143,000
• Golf Carts & Turf Equipment	133,000
• Landfill Cell #5 Development	400,000
• EMS Medical Equipment	83,000
• Emergency Management Vehicle	40,000
• Street Sweeper	156,000

Additional information on the City's capital assets can be found on pages 40 – 41 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$15,315,000. The entire amount is debt backed in full faith and credit of the City.

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

Moody's Investors Service	Aa3	Standard and Poor's	AA-
---------------------------	-----	---------------------	-----

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 44 – 46 of this report.

BUDGET FOR FISCAL YEAR-END 2009

CITY OF FREDERICKSBURG BUDGET COMPARISON FOR FISCAL YEARS 2010 AND 2009

	2009 - 2010 Budget	% Increase (Decrease)	2008 - 2009 Budget
Revenues:			
General	\$ 10,135,500	8.0	\$ 9,902,100
Electric	12,274,000	10.4	13,627,000
Water and Sewer	4,209,600	20.9	4,442,600
Golf	1,367,200	7.2	1,494,800
Solid Waste	1,600,000	5.5	1,818,000
Emergency Medical Service	1,595,000	17.3	1,577,500
Drainage	374,400	0.2	374,200
Emergency Management	622,000	173.6	105,600
Debt Service	634,200	0.2	639,300
Total Revenues	<u>32,253,000</u>	<u>10.7</u>	<u>33,981,100</u>
Expenditures:			
General:			
General	3,195,600		
Administrative	3,195,600	10.0	3,042,500
Police	3,284,600	5.6	3,200,400
Fire	745,600	6.2	640,200
Street	2,545,200	14.2	1,589,000
Park	1,187,700	(1.4)	1,056,500
Health	132,200	41.7	132,700
Total General	<u>11,090,900</u>	<u>7.9</u>	<u>9,661,300</u>
Electric	12,073,900	10.4	13,617,400
Water and Sewer	4,110,000	12.9	4,143,400
Golf	1,366,800	7.2	1,494,700
Solid Waste	1,719,400	29.3	1,983,300
Emergency Medical Service	1,595,900	17.9	1,577,400
Drainage	371,200	0.1	268,500
Emergency Management	62,100	174.7	105,500
Debt Service	633,900	0.2	639,100
Total Expenditures	<u>33,024,100</u>	<u>11.0</u>	<u>33,590,600</u>
Budgeted Excess of Revenues over Expenditures	<u>\$ (771,000)</u>	<u>(8.4)</u>	<u>\$ 390,500</u>

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2010, the adopted property tax rate was decreased from \$.2414 to \$.2350 per \$100 of assessed valuation. Appraised values increased by \$135,166,936 to \$1,277,577,872. The taxes levied increased by \$244,528 to \$3,002,308.

Tax Rate, Levy and Collection History

Fiscal Year Ended September 30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2006	\$ 0.2596	\$ 0.1557	\$ 0.1039	\$ 2,352,209	\$ 93.21%	\$ 100.75%
2007	0.2566	0.1636	0.0930	2,592,492	91.85%	100.35%
2008	0.2414	0.1606	0.0808	2,757,780	91.85%	100.38%
2009	0.2350	0.1608	0.0742	3,002,308	91.35%	100.06%

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 generally, 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.

BASIC FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Convention & Visitors Bureau
ASSETS				
Cash and Cash Equivalents	\$ 2,319,210	\$ 2,861,566	\$ 5,180,776	\$ 192,076
Investments - Current	3,240,000	6,200,000	9,440,000	-
Receivables (net of allowance for uncollectibles)	1,710,226	2,153,101	3,863,327	25
Internal Balances	(11,210)	(29,192)	(40,402)	-
Due from Others	2,165	-	2,165	-
Inventories	-	1,002,296	1,002,296	-
Capital Assets:				
Land	2,965,385	1,089,607	4,054,992	-
Buildings	7,232,909	6,608,360	13,841,269	-
Improvements other than Buildings	13,178,323	39,710,470	52,888,793	-
Machinery and Equipment	7,080,167	8,335,312	15,415,479	82,119
Less: Accumulated Depreciation	(14,136,994)	(27,849,365)	(41,986,359)	(39,062)
Total Assets	23,580,181	40,082,155	63,662,336	235,158
LIABILITIES				
Accounts Payable	1,035,561	1,899,302	2,934,863	33,720
Intergovernmental Payable	19,967	465,400	485,367	-
Accrued Interest Payable	22,647	56,704	79,351	-
Deferred Revenues	90,178	-	90,178	-
Other Current Liabilities	77,937	389,231	467,168	-
Noncurrent Liabilities				
Due Within One Year	543,346	1,960,363	2,503,709	-
Due in More Than One Year	3,797,705	10,981,245	14,778,950	-
Total Liabilities	5,587,341	15,752,245	21,339,586	33,720
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	11,670,434	15,081,377	26,751,811	-
Unrestricted Net Assets	6,322,407	9,248,535	15,570,942	201,438
Total Net Assets	\$ 17,992,841	\$ 24,329,912	\$ 42,322,753	\$ 201,438

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, 2009

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 1,546,783	\$ 102,485	\$ -
Tourism	1,470,893	-	-
Police	2,995,771	163,698	-
Emergency Management	44,799	-	85,839
Fire	644,326	-	281,130
Streets	1,946,247	29,886	203,427
Health	76,758	65,236	26,509
Parks	2,135,883	381,300	-
Bond Interest	166,112	-	-
Capital Outlay	265,209	-	-
Total Governmental Activities:	<u>11,292,781</u>	<u>742,605</u>	<u>596,905</u>
BUSINESS-TYPE ACTIVITIES:			
Electric	10,820,712	11,218,118	-
Water	3,262,748	4,243,832	-
Golf	1,441,090	1,142,799	-
EMS	1,443,660	1,501,102	-
Solid Waste	1,576,752	1,594,454	-
Drainage	303,329	317,711	-
Total Business-Type Activities:	<u>18,848,291</u>	<u>20,018,016</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT:	<u>\$ 30,141,072</u>	<u>\$ 20,760,621</u>	<u>\$ 596,905</u>
Component Unit:			
Fredericksburg Convention & Visitors Bureau	\$ 1,278,709	\$ -	\$ -
TOTAL COMPONENT UNITS:	<u>\$ 1,278,709</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues 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 & Visitors Bureau
\$ (1,444,298)	\$ -	\$ (1,444,298)	\$ -
(1,470,893)	-	(1,470,893)	-
(2,832,073)	-	(2,832,073)	-
41,040	-	41,040	-
(363,196)	-	(363,196)	-
(1,712,934)	-	(1,712,934)	-
14,987	-	14,987	-
(1,754,583)	-	(1,754,583)	-
(166,112)	-	(166,112)	-
(265,209)	-	(265,209)	-
<u>(9,953,271)</u>	<u>-</u>	<u>(9,953,271)</u>	<u>-</u>
-	397,406	397,406	-
-	981,084	981,084	-
-	(298,291)	(298,291)	-
-	57,442	57,442	-
-	17,702	17,702	-
-	14,382	14,382	-
-	<u>1,169,725</u>	<u>1,169,725</u>	<u>-</u>
<u>(9,953,271)</u>	<u>1,169,725</u>	<u>(8,783,546)</u>	<u>-</u>
-	-	-	(1,278,709)
-	-	-	(1,278,709)
2,690,302	-	2,690,302	-
3,660,650	-	3,660,650	-
458,438	-	458,438	-
1,637,522	-	1,637,522	1,300,917
33,015	-	33,015	-
75,989	-	75,989	-
-	384,420	384,420	-
36,663	150,179	186,842	-
1,068,300	(1,068,300)	-	-
<u>9,660,879</u>	<u>(533,701)</u>	<u>9,127,178</u>	<u>1,300,917</u>
(292,392)	636,024	343,632	22,208
18,980,675	22,958,446	41,939,121	179,380
(695,442)	735,442	40,000	(150)
<u>\$ 17,992,841</u>	<u>\$ 24,329,912</u>	<u>\$ 42,322,753</u>	<u>\$ 201,438</u>

CITY OF FREDERICKSBURG, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Debt Service	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,656,977	\$ (632)	\$ 1,656,345
Investments - Current	3,240,000	-	3,240,000
Taxes Receivable	413,421	-	413,421
Allowance for Uncollectible Taxes	(7,500)	-	(7,500)
Receivables - Net of Allowance for Uncollectible	211,762	-	211,762
Interest Receivable	2,223	-	2,223
Intergovernmental Receivables	1,090,320	-	1,090,320
Due from Other Funds	7,295	10,623	17,918
Total Assets	\$ 6,614,498	\$ 9,991	\$ 6,624,489
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 345,398	\$ -	\$ 345,398
Wages and Salaries Payable	209,031	-	209,031
Intergovernmental Payable	19,967	-	19,967
Due to Other Funds	93,128	2,000	95,128
Deferred Revenues	120,406	-	120,406
Other Current Liabilities	77,937	-	77,937
Total Liabilities	865,867	2,000	867,867
Fund Balances:			
Reserved For:			
Debt Service	-	7,991	7,991
Unreserved and Undesignated:			
Reported in the General Fund	5,748,631	-	5,748,631
Total Fund Balances	5,748,631	7,991	5,756,622
Total Liabilities and Fund Balances	\$ 6,614,498	\$ 9,991	\$ 6,624,489

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, 2009

Total Fund Balances - Governmental Funds	\$	5,756,622
The City uses internal service funds to charge the cost 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 (decrease) net assets.		654,746
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 \$27,228,707 and the accumulated depreciation was \$12,909,616. 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 (decrease) net assets.		12,057,243
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 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		728,053
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,227,378)
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 increase (decrease) net assets.		23,555
Net Assets of Governmental Activities	\$	17,992,841

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, 2009

	General Fund	Debt Service	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 2,047,628	\$ 629,889	\$ 2,677,517
General Sales and Use Taxes	3,660,650	-	3,660,650
Franchise Tax	458,438	-	458,438
Other Taxes	1,637,522	-	1,637,522
Penalty and Interest on Taxes	27,100	5,915	33,015
Licenses and Permits	64,390	-	64,390
Intergovernmental Revenue and Grants	393,478	-	393,478
Charges for Services	137,309	-	137,309
Fines	147,436	-	147,436
Special Assessments	29,011	-	29,011
Investment Earnings	36,472	191	36,663
Rentals	43,959	-	43,959
Pavilion and Camping Fees	320,500	-	320,500
Other Revenue	203,427	-	203,427
Total Revenues	9,207,320	635,995	9,843,315
EXPENDITURES:			
Current:			
General Government:			
Administration	1,473,784	-	1,473,784
Tourism	1,470,893	-	1,470,893
Public Safety:			
Police	2,894,999	-	2,894,999
Emergency Management	46,607	-	46,607
Fire	631,852	-	631,852
Streets	1,476,489	-	1,476,489
Health	118,254	-	118,254
Parks and Recreation:			
Parks	1,876,619	-	1,876,619
Debt Service:			
Principal	92,436	485,442	577,878
Interest	12,579	153,533	166,112
Capital Outlay:			
Capital Outlay	262,691	-	262,691
Total Expenditures	10,357,203	638,975	10,996,178
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,149,883)	(2,980)	(1,152,863)
OTHER FINANCING SOURCES (USES):			
Proceeds from Capital Leases	75,989	-	75,989
Transfers In	1,068,300	-	1,068,300
Total Other Financing Sources (Uses)	1,144,289	-	1,144,289

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, 2009

	General Fund	Debt Service	Total Governmental Funds
Net Change in Fund Balances	(5,594)	(2,980)	(8,574)
Fund Balance - October 1 (Beginning)	6,489,667	10,971	6,500,638
Prior Period Adjustment	(735,442)	-	(735,442)
Fund Balance - September 30 (Ending)	<u>\$ 5,748,631</u>	<u>\$ 7,991</u>	<u>\$ 5,756,622</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	(8,574)
The city uses some internal service funds to charge the cost of self-insurance to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.		209,394
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 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		728,053
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.		(1,227,378)
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 (decrease) net assets.		6,113
Change in Net Assets of Governmental Activities	\$	(292,392)

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

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business-Type Activities -	
	Electric	Water
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,286,944	\$ 1,534,784
Investments - Current	750,000	3,750,000
Accounts Receivable-Net of Uncollectible Allowance	1,286,311	430,509
Due from Other Funds	2,275,055	-
Inventories	795,075	169,940
Total Current Assets	6,393,385	5,885,233
Noncurrent Assets:		
Capital Assets:		
Land Purchase and Improvements	100,117	474,542
Infrastructure	8,087,824	-
Accumulated Depreciation - Infrastructure	(6,056,269)	-
Buildings	1,983,608	2,385,773
Accumulated Depreciation - Buildings	(832,706)	(1,232,715)
Improvements other than Buildings	-	22,654,693
Accumulated Depreciation - Other Improvements	-	(7,438,965)
Machinery and Equipment	1,691,575	1,896,813
Accumulated Depreciation - Machinery & Equipment	(1,529,555)	(1,836,235)
Total Noncurrent Assets	3,444,594	16,903,906
Total Assets	9,837,979	22,789,139

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

					Governmental Activities -	
Golf	EMS	Solid Waste	Drainage	Total Enterprise Funds	Internal Service Fund	
\$ (629,590)	\$ 35,750	\$ 481,231	\$ 152,447	\$ 2,861,566	\$ 162,534	
-	-	1,500,000	200,000	6,200,000	500,000	
7,914	238,939	183,011	6,417	2,153,101	1,211	
-	-	-	5,308	2,280,363	66,000	
37,281	-	-	-	1,002,296	-	
(584,395)	274,689	2,164,242	364,172	14,497,326	729,745	
305,399	-	209,549	-	1,089,607	-	
1,235,964	-	-	4,352,516	13,676,304	-	
(205,051)	-	-	(1,382,340)	(7,643,660)	-	
1,803,856	368,666	66,458	-	6,608,361	-	
(846,418)	(97,642)	(44,395)	-	(3,053,876)	-	
-	7,061	3,372,413	-	26,034,167	-	
-	(2,260)	(2,553,066)	-	(9,994,291)	-	
952,780	1,176,070	2,615,744	2,330	8,335,312	-	
(732,757)	(905,474)	(2,153,286)	(233)	(7,157,540)	-	
2,513,773	546,421	1,513,417	2,972,273	27,894,384	-	
1,929,378	821,110	3,677,659	3,336,445	42,391,710	729,745	

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

Business-Type Activities -		
	Electric	Water
LIABILITIES		
Current Liabilities:		
Accounts Payable	902,721	226,267
Wages and Salaries Payable	42,052	46,281
Compensated Absences Payable	131,331	109,371
Intergovernmental Payable	337,040	79,600
Due to Other Funds	13,338	277,965
Due to Others	-	32,635
Accrued Interest Payable	-	42,238
Bonds Payable - Current:		
Certificates of Obligation Payable	-	187,200
Revenue Bonds Payable	-	195,000
Tax Limited Notes	-	925,000
General Obligation Bonds Payable	-	80,577
Capital Leases Payable - Current	-	-
Other Current Liabilities	279,540	100,191
Total Current Liabilities	1,706,022	2,302,325
NonCurrent Liabilities:		
Bonds Payable - Non-Current:		
General Obligation Bonds Payable	-	87,832
Certificates of Obligation	-	832,800
Revenue Bonds Payable	-	1,875,000
Limited Tax Notes	-	5,275,000
Unamortized Charge - Refunding Bonds	-	(118,513)
Unamortized Premiums (Discounts) on Bonds	-	(13,022)
Other Noncurrent Liabilities	-	-
Total Noncurrent Liabilities	-	7,939,097
Total Liabilities	1,706,022	10,241,422
NET ASSETS		
Unrestricted Net Assets	8,131,957	12,547,717
Total Net Assets	\$ 8,131,957	\$ 12,547,717

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

					Governmental Activities -
Golf	EMS	Solid Waste	Drainage	Total Enterprise Funds	Internal Service Fund
46,593	13,776	58,989	2,330	1,250,676	75,000
30,259	39,568	26,021	-	184,181	-
50,006	51,571	73,094	-	415,373	-
11,825	-	36,935	-	465,400	-
2,006,380	6,380	5,492	-	2,309,555	-
16,437	-	-	-	49,072	-
2,243	3,624	-	8,599	56,704	-
-	-	-	202,800	390,000	-
-	-	-	-	195,000	-
-	-	-	-	925,000	-
80,577	-	-	48,024	209,178	-
96,909	144,276	-	-	241,185	-
-	-	9,500	-	389,231	-
<u>2,341,229</u>	<u>259,195</u>	<u>210,031</u>	<u>261,753</u>	<u>7,080,555</u>	<u>75,000</u>
87,832	-	-	515,318	690,982	-
-	-	-	902,200	1,735,000	-
-	-	-	-	1,875,000	-
-	-	-	-	5,275,000	-
(3,183)	-	-	(19,662)	(141,358)	-
(1,283)	-	-	(8,773)	(23,078)	-
-	-	1,569,699	-	1,569,699	-
<u>83,366</u>	<u>-</u>	<u>1,569,699</u>	<u>1,389,083</u>	<u>10,981,245</u>	<u>-</u>
<u>2,424,595</u>	<u>259,195</u>	<u>1,779,730</u>	<u>1,650,836</u>	<u>18,061,800</u>	<u>75,000</u>
(495,215)	561,915	1,897,929	1,685,609	24,329,912	654,745
<u>\$ (495,215)</u>	<u>\$ 561,915</u>	<u>\$ 1,897,929</u>	<u>\$ 1,685,609</u>	<u>\$ 24,329,912</u>	<u>\$ 654,745</u>

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-Type Activities -	
	Electric	Water
OPERATING REVENUES:		
Licenses and Permits	\$ 14,480	\$ -
Water Sales	-	2,541,091
Sewerage Sales	-	1,702,741
Garbage Collection Fees	-	-
Electricity Sales	11,218,118	-
EMS Fees	-	-
Property Tax Revenue	-	-
Golf Course Fees	-	-
Rents and Royalties	29,876	2,553
Drainage Utilities	-	-
Other Revenue	255,500	-
Total Operating Revenues	11,517,974	4,246,385
OPERATING EXPENSES:		
Personnel Services - Salaries and Wages	798,687	787,167
Personnel Services - Employee Benefits	223,802	246,773
Purchased Professional & Technical Services	193,468	45,544
Purchased Property Services	467,657	897,995
Other Operating Expenses	8,780,675	103,774
Supplies	55,551	73,622
Depreciation	300,872	669,420
Amortization of Premiums or Discounts - Bonds	-	12,843
Total Operating Expenses	10,820,712	2,837,138
Operating Income (Loss)	697,262	1,409,247
NON-OPERATING REVENUES (EXPENSES):		
Transfers In	-	-
Investment Earnings	11,251	124,544
Interest Expense - Non-Operating	-	(425,610)
Total Non-operating Revenue (Expenses)	11,251	(301,066)
Income Before Transfers	708,513	1,108,181
Transfers Out	(1,778,200)	(268,300)
Change in Net Assets	(1,069,687)	839,881
Total Net Assets - October 1 (Beginning)	9,201,644	11,707,836
Prior Period Adjustment	-	-
Total Net Assets - September 30 (Ending)	\$ 8,131,957	\$ 12,547,717

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

					Governmental Activities -	
					Total Enterprise Funds	Internal Service Fund
Golf	EMS	Solid Waste	Drainage			
\$	- \$	- \$	- \$	- \$	14,480	\$ -
-	-	-	-	-	2,541,091	-
-	-	-	-	-	1,702,741	-
-	-	1,594,454	-	-	1,594,454	-
-	-	-	-	-	11,218,118	-
-	1,501,102	-	-	-	1,501,102	-
-	-	-	317,711	-	317,711	-
1,142,799	-	-	-	-	1,142,799	-
-	-	2,400	-	-	34,829	-
-	-	-	73,136	-	73,136	-
-	-	6,475	-	-	261,975	1,025,586
<u>1,142,799</u>	<u>1,501,102</u>	<u>1,603,329</u>	<u>390,847</u>		<u>20,402,436</u>	<u>1,025,586</u>
508,391	781,247	503,521	-	-	3,379,013	-
161,030	224,282	171,591	-	-	1,027,478	-
14,214	148,287	-	4,595	-	406,108	-
217,374	102,838	153,762	-	-	1,839,626	-
91,473	48,042	278,286	-	-	9,302,250	819,871
200,435	31,452	84,983	269	-	446,312	-
167,492	100,777	384,609	216,977	-	1,840,147	-
25,425	-	-	3,283	-	41,551	-
<u>1,385,834</u>	<u>1,436,925</u>	<u>1,576,752</u>	<u>225,124</u>		<u>18,282,485</u>	<u>819,871</u>
<u>(243,035)</u>	<u>64,177</u>	<u>26,577</u>	<u>165,723</u>		<u>2,119,951</u>	<u>205,715</u>
1,074,800	-	-	-	-	1,074,800	-
1,234	22	8,536	4,592	-	150,179	3,679
(55,256)	(6,735)	-	(78,205)	-	(565,806)	-
<u>1,020,778</u>	<u>(6,713)</u>	<u>8,536</u>	<u>(73,613)</u>		<u>659,173</u>	<u>3,679</u>
777,743	57,464	35,113	92,110	-	2,779,124	209,394
-	-	(96,600)	-	-	(2,143,100)	-
777,743	57,464	(61,487)	92,110	-	636,024	209,394
(1,272,958)	(230,991)	1,959,416	1,593,499	-	22,958,446	445,351
-	735,442	-	-	-	735,442	-
<u>\$ (495,215)</u>	<u>\$ 561,915</u>	<u>\$ 1,897,929</u>	<u>\$ 1,685,609</u>		<u>\$ 24,329,912</u>	<u>\$ 654,745</u>

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-Type Activities	
	Electric	Water
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Customers	\$ 12,056,191	\$ 4,381,370
Cash Payments to Employees for Services	(1,016,288)	(1,029,803)
Cash Payments for Suppliers	(9,883,841)	(1,032,159)
Net Cash Provided by (Used for) Operating Activities	<u>1,156,062</u>	<u>2,319,408</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Operating Transfers Out	(1,778,200)	(268,300)
Operating Transfer In	-	-
Prior Period Adjustment	-	-
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,778,200)</u>	<u>(268,300)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Acquisition of Capital Assets	(155,828)	(1,713,062)
Principal Paid On Capital Debt	-	(1,208,471)
Interest Paid On Capital Debt	-	(425,610)
Borrowing Under Capital Lease	-	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(155,828)</u>	<u>(3,347,143)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest and Dividends on Investments	<u>11,251</u>	<u>124,544</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(766,715)	(1,171,491)
Cash and Cash Equivalents at Beginning of the Year:	<u>2,803,659</u>	<u>6,456,275</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 2,036,944</u>	<u>\$ 5,284,784</u>

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

					Governmental Activities -	
Golf	EMS	Solid Waste	Drainage	Total Enterprise Funds	Internal Service Fund	
\$ 1,134,885	\$ 1,504,765	\$ 1,554,617	\$ 390,623	\$ 21,022,451	\$ 1,029,969	
(727,535)	(1,046,025)	(741,002)	-	(4,560,653)	-	
(474,171)	(239,307)	(323,573)	(3,482)	(11,956,533)	(827,659)	
<u>(66,821)</u>	<u>219,433</u>	<u>490,042</u>	<u>387,141</u>	<u>4,505,265</u>	<u>202,310</u>	
-	-	(96,600)	-	(2,143,100)	-	
1,074,800	-	-	-	1,074,800	-	
-	735,442	-	-	735,442	-	
<u>1,074,800</u>	<u>735,442</u>	<u>(96,600)</u>	<u>-</u>	<u>(332,858)</u>	<u>-</u>	
(131,335)	(83,161)	(417,733)	(39,594)	(2,540,713)	-	
(1,168,301)	(68,028)	-	(241,667)	(2,686,467)	-	
(55,256)	(6,735)	-	(78,205)	(565,806)	-	
61,091	-	-	-	61,091	-	
<u>(1,293,801)</u>	<u>(157,924)</u>	<u>(417,733)</u>	<u>(359,466)</u>	<u>(5,731,895)</u>	<u>-</u>	
1,234	22	8,536	4,592	150,179	3,679	
(284,588)	796,973	(15,755)	32,267	(1,409,309)	205,989	
(345,002)	(761,223)	1,996,986	320,180	10,470,875	456,545	
<u>\$ (629,590)</u>	<u>\$ 35,750</u>	<u>\$ 1,981,231</u>	<u>\$ 352,447</u>	<u>\$ 9,061,566</u>	<u>\$ 662,534</u>	

CITY OF FREDERICKSBURG, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Business-Type Activities	
	Electric	Water
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided By (Used For) Operating Activities:</u>		
Operating Income (Loss):	\$ 697,262	\$ 1,409,247
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	300,872	669,420
Amortization	-	12,843
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	538,217	134,985
Decrease (increase) in Due From Other Funds	(5,055)	-
Decrease (increase) in Inventories	141,972	21,461
Decrease (increase) in Deferred Charges	-	86,040
Increase (decrease) in Accounts Payable	(349,606)	1,057
Increase (decrease) in Wages and Salaries Payable	6,201	4,137
Increase (decrease) in Due To Other Funds	8,823	996
Increase (decrease) in Due To Other Governments	(194,005)	(26,800)
Increase (decrease) in Compensated Absence Payable	11,381	6,022
Increase (decrease) in Lia. for Landfill Closure	-	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,156,062</u>	<u>\$ 2,319,408</u>

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

					Governmental Activities -	
Golf	EMS	Solid Waste	Drainage	Total Enterprise Funds	Internal Service Fund	
\$ (243,035)	\$ 64,177	\$ 26,577	\$ 165,723	\$ 2,119,951	\$ 205,715	
167,492	100,777	384,609	216,927	1,840,097	-	
25,425	-	-	3,283	41,551	-	
(7,914)	3,663	(48,712)	(222)	620,017	4,383	
-	36,599	-	85	31,629	(7,788)	
(3,267)	-	-	-	160,166	-	
-	-	-	-	86,040	-	
2,367	2,702	15,681	1,345	(326,454)	-	
(58,114)	(40,496)	(65,890)	-	(154,162)	-	
1,034	440	146	-	11,439	-	
(815)	-	35	-	(221,585)	-	
50,006	51,571	73,094	-	192,074	-	
-	-	104,502	-	104,502	-	
<u>\$ (66,821)</u>	<u>\$ 219,433</u>	<u>\$ 490,042</u>	<u>\$ 387,141</u>	<u>\$ 4,505,265</u>	<u>\$ 202,310</u>	

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 SEPTEMBER 30, 2009

		Agency Funds
ASSETS		
Cash and Cash Equivalents	\$	139,105
Total Assets		<u>139,105</u>
LIABILITES		
Accounts Payable	\$	20,978
Total Liabilities		<u>20,978</u>
NET ASSETS		
Restricted for Market Square		117,999
Restricted for Firemen's Relief		<u>128</u>
Total Net Assets	\$	<u><u>118,127</u></u>

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

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 measureable 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 measureable and available only when cash is received by the City.

The City has the following major governmental fund:

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund types:

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

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

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

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no balances that were considered "advanced to/from other funds" at September 30, 2009. 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 \$5,000 (amount not rounded) and an estimated useful life in excess of one year.) Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

(continued)

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

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

4. Capital Assets (Continued)

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

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

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

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

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next 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 \$23,555 difference are as follows:

Deferred revenues	\$	30,228
Compensated absences		<u>(6,673)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	<u>23,555</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 \$6,113 difference are as follows:

Reclass delinquent property taxes collected in current year	\$	12,785
Adjust compensated absences		<u>(6,673)</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>6,113</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, 2009, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 446,769	27
Portfolio weighted average maturity (days)	\$ 446,769	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, 2009, \$4,114,267 of the City's \$4,364,267 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$250,000 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, 2009, 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 \$250,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and MBIA Class.

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

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:							
Taxes	\$ 413,421	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 413,421
Notes	105,000	-	-	-	-	-	105,000
Due from other governments	1,090,320	-	-	-	-	45,457	1,135,777
Customer accounts	109,619	-	1,293,870	434,056	6,323	423,789	2,267,657
Other	2,222	-	2,395	-	151	1,040	5,808
Gross receivables	1,720,582	-	1,296,265	434,056	6,474	470,286	3,927,663
Less: allowance for uncollectibles	(10,356)	-	(9,953)	(3,547)	(57)	(40,423)	(64,336)
Net total receivables	\$ 1,710,226	\$ -	\$ 1,286,312	\$ 430,509	\$ 6,417	\$ 429,863	\$ 3,863,327

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	\$	69,476
Delinquent property taxes receivable		<u>58,377</u>
Total	\$	<u>127,853</u>

Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,965,385	\$ -	\$ -	\$ 2,965,385
Total assets not being depreciated	<u>2,965,385</u>	<u>-</u>	<u>-</u>	<u>2,965,385</u>
Capital assets, being depreciated:				
Buildings	7,232,908	-	-	7,232,908
Improvements other than buildings	13,143,871	34,452	-	13,178,323
Equipment	6,851,928	228,239	-	7,080,167
Total capital assets being depreciated	<u>27,228,707</u>	<u>262,691</u>	<u>-</u>	<u>27,491,398</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>12,909,615</u>	<u>(1,227,378)</u>	<u>-</u>	<u>14,136,993</u>
Total capital assets being depreciated, net	<u>14,319,092</u>	<u>(964,687)</u>	<u>-</u>	<u>13,354,405</u>
Governmental activities capital assets, net	<u>\$ 17,284,477</u>	<u>(964,687)</u>	<u>-</u>	<u>16,319,790</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	6,608,361	-	-	6,608,361
Improvements other than buildings	37,505,817	2,305,892	101,238	39,710,471
Equipment	8,100,485	234,827	-	8,335,312
Total capital assets being depreciated	<u>52,214,661</u>	<u>2,540,719</u>	<u>101,238</u>	<u>54,654,142</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>26,110,505</u>	<u>(1,840,098)</u>	<u>101,238</u>	<u>27,849,365</u>
Total capital assets being depreciated, net	<u>26,104,155</u>	<u>700,621</u>	<u>-</u>	<u>26,804,776</u>
Business-type activities capital assets, net	<u>27,193,762</u>	<u>700,621</u>	<u>-</u>	<u>27,894,383</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	\$	145,070
Police		156,037
Fire		116,924
Streets		503,755
Parks and recreation		294,425
Health & Emergency Mgmt.		5,436
Police Forfeiture		5,731
		<hr/>
Total depreciation expense – governmental activities	\$	<u>1,227,378</u>
Business-type activities:		
Electric	\$	300,872
Water and Sewer		669,420
Golf		167,492
Landfill		384,609
EMS		100,777
Drainage Utilities		216,977
		<hr/>
Total depreciation expense – business-type activities	\$	<u>1,840,147</u>

Interfund Receivables, Payables and Transfers

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

GENERAL FUND	DUE TO	DUE FROM
	<hr/>	<hr/>
Drainage	5,308	-
Debt Svc.	10,622	2,000
Emer. Mgmt.	-	4,830
EMS	37,545	-
Hospital Insurance	34,357	-
Fund 80	465	465
ELECTRIC FUND		
Water & Sewer	-	270,000
Golf	7,914	2,000,000
Hospital Insurance	5,425	-
WATER FUND		
Electric	270,000	-
Hospital Insurance	7,965	-
GOLF FUND		
Electric	-	7,914
Hospital Insurance	6,380	-

Electric	2,000,000	-
SOLID WASTE		
Hospital Insurance	5,492	-
EMS FUND		
General Fund	-	37,545
Hospital Insurance	6,380	-
EMER MGMT FUND		
General Fund	4,830	-
HOSPITAL INSURANCE		
General Fund	-	34,357
Electric	-	5,425
Water & Sewer	-	7,965
Golf	-	6,380
Solid Waste	-	5,492
EMS	-	6,380
DRAINAGE FUND		
General Fund	-	5,308
DEBT SERVICE		
General Fund	2,000	10,623
TOTAL DUE TO/DUE FROM	<u>2,404,685</u>	<u>2,404,685</u>

The balance of \$270,000 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 Into General	Total
Transfers Out:		
Electric	\$ 703,400	\$ 703,400
Water & Sewer	268,300	268,300
Landfill	96,600	96,600
Total Transfers	<u>\$ 1,068,300</u>	<u>\$ 1,068,300</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 2009, the City made payments from various funds to the General Fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

Electric	\$ 703,400
Water and sewer	268,300
Landfill	96,600

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, 2009 were as follows:

Year Ending September 30,	Governmental Activities	Business-type Activities
2010	67,111	117,045
2011	106,594	117,045
2012	106,594	21,647
2013	67,111	-
Total minimum lease payments	347,410	255,736
Less: amount representing interest	26,198	14,550
Present value of minimum lease payments	\$ 321,212	241,186

DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,505,282	\$ -	\$ 485,454	\$ 4,019,828	\$ 485,357
Total bonds payable	4,505,282	-	485,454	4,019,828	485,357
Capitalized leases	337,659	75,989	92,436	321,212	57,989
Compensated absences	399,459	6,673	-	406,132	-
Total governmental Activities	\$ 5,242,400	\$ 82,662	\$ 577,890	\$ 4,747,172	\$ 543,346
Business-type activities					
Certificates of obligation:					
Certificates of obligation	\$ 3,550,000	\$ -	\$ 1,425,000	\$ 2,125,000	\$ 390,000
Less: discount on bonds	(20,303)	(49,256)	(29,048)	(40,511)	-
Total certificates of Obligation	3,529,697	(49,256)	1,395,952	2,084,489	390,000
General obligation bonds:					
General obligation bonds	1,869,718	-	969,558	900,160	209,178
Less: discount on bonds	(9,437)	-	(2,068)	(7,369)	-
Less: deferred amount on refundings	(23,258)	-	(3,948)	(19,310)	-
Total bonds payable	1,837,023	-	963,542	873,481	47,988
Revenue Bonds and Notes					
Revenue bonds	2,260,000	-	190,000	2,070,000	195,000
Less: Discount on Bonds	(58,675)	-	5,979	(52,696)	-
Limited tax notes	6,200,000	-	-	6,200,000	925,000
Less: Discount on Bonds	(53,460)	-	8,910	(44,550)	-
Total revenue bonds & notes	8,347,865	-	175,111	8,172,754	1,120,000
Capitalized leases	282,003	61,091	101,909	241,185	108,624
Compensated absences	380,019	-	156,720	223,299	-
Total business-type Activities	\$ 14,376,607	\$ 11,835	\$ 2,793,234	\$ 11,619,904	\$ 1,666,612
Long-term liabilities	\$ 19,582,480	\$ 94,497	\$ 3,371,124	\$ 16,305,853	\$ 2,209,958

Governmental activities long-term liabilities at September 30, 2009, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
1998 General Obligation Bonds	\$ 1,167,600	3.40%-4.40%	\$ 358,182

2004 General Obligation Bonds	5,070,000	1.35%-4.32%	<u>3,661,658</u>
			<u>\$ 4,019,840</u>

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, 2009, consisted of the following:

<u>Series</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1998 Certificate of Obligation	\$ 5,775,000	5.50% to 8.50%	\$ 2,125,000
1999 Certificate of Obligation	5,140,000	3.40% to 4.40%	-
1998 General Obligation Bonds	3,042,712	4.30% to 5.25%	336,818
2004 General Obligation Bonds	780,000	1.35% to 4.32%	563,342
2003 Revenue Bonds	2,975,000	1.61% to 4.40%	2,070,000
2008 Tax Notes	6,200,000	3.340%	6,200,000
			<u>\$ 11,295,160</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2009, are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>General Obligation Bonds Interest</u>	<u>Total</u>
2010	485,357	141,607	626,964
2011	505,005	127,956	632,961
2012	329,335	112,918	442,253
2013	342,335	101,375	443,710
2014	355,347	88,674	444,021
2015-2019	2,002,449	216,229	2,218,678
	<u>\$ 4,019,828</u>	<u>\$ 788,759</u>	<u>\$ 4,808,587</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, 2009, are as follows:

September 30,	Principal	General Obligation Bonds, Certificates of Obligation and Revenue Bonds Interest	Total
2010	\$ 1,719,143	\$ 402,972	\$ 2,122,115
2011	1,799,984	336,793	2,136,777
2012	1,695,654	266,908	1,962,562
2013	1,772,654	204,209	1,976,863
2014	1,844,653	138,041	1,982,694
2015-2019	<u>2,462,922</u>	<u>142,151</u>	<u>2,605,073</u>
	<u>\$ 11,295,010</u>	<u>\$ 1,491,074</u>	<u>12,786,084</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 May 17, 2010).

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 28-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate in advance for budgetary purposes; there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2007 valuation is effective for rates beginning January 2009.)

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

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

Actuarial Assumptions

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

(continued)

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

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

The Fire Fighters' Pension Commission is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (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, 2009, 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, 2009, the Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,939
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,975
Active Participants (Vested and Nonvested)	<u>4,340</u>
	<u>8,254</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, 2009.

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 \$1,569,699 as of September 30, 2009, which is based on 86.77% usage of current open cells and 22.40% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2073. It is estimated that an additional \$1,090,004 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, 2009. 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.

Prior Period Adjustments

There were two prior period adjustments posted directly to beginning fund balances.

The first adjustment was necessary to record prior year's funding of Emergency Medical Services operations from the General Fund. The adjustment restates the beginning of year fund balance by reducing the fund balance in the General Fund by \$735,442 and by increasing the fund balance in Emergency Medical Services by \$735,442.

The second adjustment was necessary to correct for revenue posted to the Market Square Trust that should have been recorded to the General Fund in the prior year. The adjustment restates the beginning of year fund balances by reducing the fund balance in the Market Square Trust Fund by \$40,000 and by increasing the fund balance in the General Fund by \$40,000.

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF FREDERICKSBURG
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30 2009

	Budgeted		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
RECEIPTS:				
Taxes:				
Property Taxes	\$ 2,065,000	\$ 2,065,000	\$ 2,047,628	\$ (17,372)
General Sales and Use Tax	3,700,000	3,700,000	3,660,650	(39,350)
Franchise Tax	432,000	432,000	458,438	26,438
Other Taxes	517,600	517,600	1,637,522	1,119,922
Penalty and Interest on Taxes	21,000	21,000	27,100	6,100
Licenses and Permits	75,300	75,300	64,390	(10,910)
Intergovernmental Revenue and Grants	375,000	375,000	393,478	18,478
Charges for Services	156,100	156,100	137,309	(18,791)
Fines	121,800	121,800	147,436	25,636
Special Assessments	28,000	28,000	29,011	1,011
Investment Earnings	70,000	70,000	36,472	(33,528)
Rentals	302,200	302,200	364,459	62,259
Other Revenues	20,500	20,500	203,427	182,927
Total Receipts	<u>7,884,500</u>	<u>7,884,500</u>	<u>9,207,320</u>	<u>1,322,820</u>
EXPENDITURES:				
Current:				
General Administration:				
Administration	1,542,500	1,542,500	1,498,783	43,717
Tourism	1,500,000	1,500,000	1,470,893	29,107
Public Safety:				
Police	3,200,400	3,200,400	2,894,999	305,401
Emergency Management	105,500	105,500	85,858	19,642
Fire	640,200	640,200	698,963	(58,763)
Streets	1,589,000	1,589,000	1,678,922	(89,922)
Health	132,700	132,700	118,254	14,446
Parks	1,056,500	1,056,500	1,910,531	(854,031)
Total Disbursements	<u>9,766,800</u>	<u>9,766,800</u>	<u>10,357,203</u>	<u>(590,403)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(1,882,300)</u>	<u>(1,882,300)</u>	<u>(1,149,883)</u>	<u>732,417</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	75,989	75,989
Transfers In	1,095,300	1,095,300	1,068,300	27,000
Total Other Financing Sources (Uses)	<u>1,095,300</u>	<u>1,095,300</u>	<u>1,144,289</u>	<u>102,989</u>
Net Change in Fund Balance	(787,000)	(787,000)	(5,594)	781,406
Fund Balance - October 1 (beginning)	6,489,667	6,489,667	6,489,667	-
Prior Period Adjustment	-	-	(735,442)	(735,442)
Fund Balance - September 30 (Ending)	<u>\$ 5,702,667</u>	<u>\$ 5,702,667</u>	<u>\$ 5,748,631</u>	<u>\$ 45,964</u>