CITY OF FREDERICKSBURG

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED

SEPTEMBER 30, 2010
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Independent Auditor's Report

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

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other Required Supplementary Information such as budgetary comparison information presented on pages 3 through 10 and page 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 28,
2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Klein, Kraus and Company, LLC

December 28, 2010
Management’s Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2010, by $42,809,978 (net assets). Of this amount, $16,181,482 (unrestricted net assets) may be used to meet the City’s ongoing obligations to citizens and creditors in accordance with the City’s fund designation and fiscal policies.

- The City’s total net assets increased by $487,224.

- As of the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of $5,926,067. Approximately 97 percent of the total amount, $5,753,199 is unreserved fund balance available for use within the City’s fund designation and fiscal policies.

- As of September 30, 2010, unreserved fund balance for the General Fund was $5,753,199 or 60 percent of the current year’s total General Fund expenditures of $9,646,226.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Activities presents information showing how the City’s net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensation absences.)
Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations.

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

### CITY OF FREDERICKSBURG’S NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Current and other assets</strong></td>
<td>$7,259,103</td>
<td>$7,606,573</td>
<td>$12,187,771</td>
</tr>
<tr>
<td><strong>Capital assets</strong></td>
<td>16,321,075</td>
<td>15,559,287</td>
<td>27,894,384</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>23,580,181</td>
<td>23,165,860</td>
<td>40,082,155</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>1,246,290</td>
<td>1,205,512</td>
<td>2,939,238</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td>4,341,051</td>
<td>4,221,600</td>
<td>12,813,007</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5,587,341</td>
<td>5,427,112</td>
<td>15,752,245</td>
</tr>
<tr>
<td><strong>Net Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net of related debt</td>
<td>11,670,434</td>
<td>12,091,320</td>
<td>15,081,377</td>
</tr>
<tr>
<td><strong>Restricted</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unrestricted</strong></td>
<td>6,322,407</td>
<td>6,889,355</td>
<td>9,248,535</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$17,992,840</td>
<td>$17,738,748</td>
<td>$24,329,912</td>
</tr>
</tbody>
</table>

By far the largest portion of the City’s net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets $15,570,942 may be used to meet the government’s ongoing obligations to citizens and creditors.
# City of Fredericksburg
## Statement of Activities
### For Fiscal Years 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$ 707,829</td>
<td>$ 742,605</td>
<td>$ 18,540,002</td>
</tr>
<tr>
<td>Operating Grants</td>
<td>340,017</td>
<td>596,905</td>
<td></td>
</tr>
<tr>
<td>and Contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$ 2,681,736</td>
<td>$ 2,723,317</td>
<td>$ 398,120</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$ 3,701,322</td>
<td>$ 3,660,650</td>
<td>$ 3,079,856</td>
</tr>
<tr>
<td>Hotel Occupancy Taxes</td>
<td>$ 1,702,381</td>
<td>$ 458,438</td>
<td></td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$ 585,615</td>
<td>$ 1,637,522</td>
<td>$ 585,615</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>$ 85,054</td>
<td>$ 75,989</td>
<td>$ 1,900,812</td>
</tr>
<tr>
<td>Investments Earnings</td>
<td>$ 46,944</td>
<td>$ 36,663</td>
<td>$ 44,846</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$ 9,850,898</td>
<td>$ 9,932,089</td>
<td>$ 20,883,780</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>$ 30,734,678</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative</td>
<td>$ 3,222,431</td>
<td>$ 3,054,924</td>
<td>$ 3,222,431</td>
</tr>
<tr>
<td>Police</td>
<td>$ 3,373,089</td>
<td>$ 2,995,771</td>
<td>$ 3,373,089</td>
</tr>
<tr>
<td>Fire</td>
<td>$ 728,110</td>
<td>$ 655,528</td>
<td>$ 728,110</td>
</tr>
<tr>
<td>Streets</td>
<td>$ 1,956,321</td>
<td>$ 2,255,955</td>
<td>$ 1,956,321</td>
</tr>
<tr>
<td>Parks</td>
<td>$ 1,252,897</td>
<td>$ 2,169,795</td>
<td>$ 1,252,897</td>
</tr>
<tr>
<td>Health</td>
<td>$ 130,518</td>
<td>$ 76,758</td>
<td>$ 130,518</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>$ 67,940</td>
<td>$ 84,050</td>
<td>$ 67,940</td>
</tr>
<tr>
<td>Electric</td>
<td></td>
<td></td>
<td>$ 11,262,905</td>
</tr>
<tr>
<td>Water and Sewer</td>
<td></td>
<td></td>
<td>$ 3,223,018</td>
</tr>
<tr>
<td>Golf</td>
<td></td>
<td></td>
<td>$ 1,358,499</td>
</tr>
<tr>
<td>Landfill</td>
<td></td>
<td></td>
<td>$ 1,706,221</td>
</tr>
<tr>
<td>EMS</td>
<td></td>
<td></td>
<td>$ 1,564,853</td>
</tr>
<tr>
<td>Drainage Utilities</td>
<td></td>
<td></td>
<td>$ 282,133</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 10,731,306</td>
<td>$ 11,292,781</td>
<td>$ 19,397,629</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>$ 30,128,936</td>
</tr>
<tr>
<td>Increase (decrease) in Net Assets Before Transfers</td>
<td>$ (830,408)</td>
<td>$ (1,360,692)</td>
<td>$ 1,466,151</td>
</tr>
<tr>
<td>Transfers</td>
<td>626,315</td>
<td>1,068,300</td>
<td>(744,333)</td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>$ (254,093)</td>
<td>(292,392)</td>
<td>$ 741,318</td>
</tr>
<tr>
<td>Net Assets, Beginning</td>
<td>$ 17,992,841</td>
<td>$ 18,580,675</td>
<td>$ 24,329,912</td>
</tr>
<tr>
<td>Prior Period Adjustment</td>
<td></td>
<td></td>
<td>$ 24,329,912</td>
</tr>
<tr>
<td>Net Assets, Beginning</td>
<td>$ 17,992,841</td>
<td>$ 18,285,233</td>
<td>$ 24,329,912</td>
</tr>
<tr>
<td>Net Assets, Ending</td>
<td>$ 17,736,748</td>
<td>$ 17,992,841</td>
<td>$ 25,071,230</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2010</td>
</tr>
</tbody>
</table>

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

As a whole, the government's net assets increased by $487,224 during the current fiscal year.
FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

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

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

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

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

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

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

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

$1,097,000
Additional information on the City’s capital assets can be found on pages 38 – 39 of this report.

DEBT ADMINISTRATION

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

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

Current Year Refunding

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

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

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

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

PROPERTY TAXES

General Fund Property Tax Rate

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

Tax Rate, Levy and Collection History

<table>
<thead>
<tr>
<th>Fiscal Year Ended September 30</th>
<th>Tax Rate</th>
<th>General Fund</th>
<th>Interest and Sinking Fund</th>
<th>Tax Levy</th>
<th>% Current Collections</th>
<th>% Total Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.2319</td>
<td>0.1413</td>
<td>0.0906</td>
<td>3,050,545</td>
<td>91.78%</td>
<td>100.19%</td>
</tr>
<tr>
<td>2009</td>
<td>0.2350</td>
<td>0.1608</td>
<td>0.0742</td>
<td>3,002,027</td>
<td>92.39%</td>
<td>100.87%</td>
</tr>
<tr>
<td>2008</td>
<td>0.2414</td>
<td>0.1606</td>
<td>0.0808</td>
<td>2,760,539</td>
<td>91.76%</td>
<td>100.28%</td>
</tr>
<tr>
<td>2007</td>
<td>0.2566</td>
<td>0.1636</td>
<td>0.0930</td>
<td>2,574,997</td>
<td>92.48%</td>
<td>101.04%</td>
</tr>
<tr>
<td>2006</td>
<td>0.2596</td>
<td>0.1557</td>
<td>0.1039</td>
<td>2,359,435</td>
<td>93.16%</td>
<td>100.70%</td>
</tr>
<tr>
<td>2005</td>
<td>0.2820</td>
<td>0.1681</td>
<td>0.1139</td>
<td>2,314,321</td>
<td>92.15%</td>
<td>100.45%</td>
</tr>
<tr>
<td>2004</td>
<td>0.2567</td>
<td>0.1955</td>
<td>0.0612</td>
<td>1,926,198</td>
<td>92.44%</td>
<td>101.28%</td>
</tr>
<tr>
<td>2003</td>
<td>0.2370</td>
<td>0.1764</td>
<td>0.0606</td>
<td>1,610,865</td>
<td>93.16%</td>
<td>102.09%</td>
</tr>
<tr>
<td>2002</td>
<td>0.2505</td>
<td>0.1939</td>
<td>0.0566</td>
<td>1,501,757</td>
<td>92.02%</td>
<td>100.71%</td>
</tr>
<tr>
<td>2001</td>
<td>0.2651</td>
<td>0.2063</td>
<td>0.0588</td>
<td>1,453,310</td>
<td>91.38%</td>
<td>99.54%</td>
</tr>
</tbody>
</table>
# City of Fredericksburg
## Budget Comparison
### For Fiscal Years 2011 and 2010

**Revenues**

<table>
<thead>
<tr>
<th>Fund</th>
<th>2010-2011 Budget</th>
<th>2009-2010 Budget</th>
<th>Increase (Decrease)</th>
<th>% Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$10,252,100</td>
<td>$10,135,500</td>
<td>$116,600</td>
<td>1.15%</td>
</tr>
<tr>
<td>Electric</td>
<td>11,951,000</td>
<td>12,274,000</td>
<td>(323,000)</td>
<td>-2.63%</td>
</tr>
<tr>
<td>Water &amp; Sewer</td>
<td>4,391,000</td>
<td>4,209,600</td>
<td>181,400</td>
<td>4.31%</td>
</tr>
<tr>
<td>Golf</td>
<td>1,220,500</td>
<td>1,367,200</td>
<td>(146,700)</td>
<td>-10.73%</td>
</tr>
<tr>
<td>Landfill</td>
<td>1,728,400</td>
<td>1,600,000</td>
<td>128,400</td>
<td>8.03%</td>
</tr>
<tr>
<td>EMS</td>
<td>1,663,700</td>
<td>1,595,900</td>
<td>67,800</td>
<td>4.25%</td>
</tr>
<tr>
<td>Drainage</td>
<td>335,800</td>
<td>374,400</td>
<td>(38,600)</td>
<td>-10.31%</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>67,200</td>
<td>62,200</td>
<td>5,000</td>
<td>8.04%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>514,200</td>
<td>634,200</td>
<td>(120,000)</td>
<td>-18.92%</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$32,123,900</strong></td>
<td><strong>$32,253,000</strong></td>
<td><strong>($129,100)</strong></td>
<td><strong>-0.40%</strong></td>
</tr>
</tbody>
</table>

**Expenditures**

<table>
<thead>
<tr>
<th>Fund</th>
<th>2010-2011 Budget</th>
<th>2009-2010 Budget</th>
<th>Increase (Decrease)</th>
<th>% Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$11,324,500</td>
<td>$11,090,900</td>
<td>$233,600</td>
<td>2.11%</td>
</tr>
<tr>
<td>Administrative</td>
<td>$3,436,700</td>
<td>$3,195,600</td>
<td>$241,100</td>
<td>7.54%</td>
</tr>
<tr>
<td>Police</td>
<td>3,261,400</td>
<td>3,284,600</td>
<td>(23,200)</td>
<td>-0.71%</td>
</tr>
<tr>
<td>Fire</td>
<td>757,900</td>
<td>745,600</td>
<td>12,300</td>
<td>1.65%</td>
</tr>
<tr>
<td>Street</td>
<td>2,727,700</td>
<td>2,545,200</td>
<td>182,500</td>
<td>7.17%</td>
</tr>
<tr>
<td>Park</td>
<td>1,003,500</td>
<td>1,187,700</td>
<td>(184,200)</td>
<td>-15.51%</td>
</tr>
<tr>
<td>Health</td>
<td>137,300</td>
<td>132,200</td>
<td>5,100</td>
<td>3.86%</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>$34,105,600</strong></td>
<td><strong>$33,024,100</strong></td>
<td><strong>$1,081,500</strong></td>
<td><strong>3.27%</strong></td>
</tr>
</tbody>
</table>

**Budgeted Revenues in Excess (Deficiency) of Expenditures**

<table>
<thead>
<tr>
<th></th>
<th>2010-2011</th>
<th>2009-2010</th>
<th>Increase (Decrease)</th>
<th>% Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficiency</td>
<td>($1,981,700)</td>
<td>($771,100)</td>
<td>($1,210,600)</td>
<td>3.27%</td>
</tr>
</tbody>
</table>
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
## City of Fredericksburg, Texas
### Statement of Net Assets
#### September 30, 2010

<table>
<thead>
<tr>
<th></th>
<th>Primary Government</th>
<th>Component Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governmental Activities</td>
<td>Business-Type Activities</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$2,801,836</td>
<td>$5,638,712</td>
</tr>
<tr>
<td>Investments - Current</td>
<td>3,240,000</td>
<td>3,200,000</td>
</tr>
<tr>
<td>Tax Receivables (Net of Allowance)</td>
<td>505,864</td>
<td></td>
</tr>
<tr>
<td>Internal Balances</td>
<td>158,851</td>
<td>2,352,014</td>
</tr>
<tr>
<td>Intergovernmental Receivable</td>
<td>667,428</td>
<td>250,000</td>
</tr>
<tr>
<td>Due from Others</td>
<td>211,593</td>
<td>2,154,350</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>936,745</td>
</tr>
<tr>
<td>Note Receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and Equipment, Net of Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>2,905,385</td>
<td>1,089,608</td>
</tr>
<tr>
<td>Buildings</td>
<td>7,327,731</td>
<td>6,606,362</td>
</tr>
<tr>
<td>Improvements</td>
<td>13,230,290</td>
<td>40,117,344</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>7,282,026</td>
<td>8,704,409</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(15,246,145)</td>
<td>(29,647,628)</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$23,155,860</td>
<td>$41,403,916</td>
</tr>
</tbody>
</table>

## LIABILITIES

|                         |                    |       |                             |                             |
|-------------------------|                    |       |                             |                             |
| Accounts Payable        | 798,353            | 1,447,821 | 2,246,174 | 10,588                     |
| Accrued Payroll         | 69,233             | 60,707  | 129,940                     |
| Intergovernmental Payable | 54,587          | 172,778 | 227,365                     |
| Accrued Interest Payable | 15,080           | 40,045  | 55,125                      |
| Internal Balances       | 62,782             | 2,448,083 | 2,510,865 |                             |
| Deferred Revenues       | 87,290             | 87,290  |                             |
| OtherCurrent Liabilities | 118,168          | 581,966 | 700,154                     |
| Noncurrent Liabilities  |                    |       |                             |                             |
| Due Within One Year     | 653,763            | 1,829,846 | 2,483,629 |                             |
| Due in More Than One Year | 3,567,817      | 9,751,440 | 13,319,257 |                             |
| **Total Liabilities**   | $5,427,112         | $16,332,686 | $21,759,798 | $10,588                    |

## NET ASSETS

|                         |                    |       |                             |                             |
|-------------------------|                    |       |                             |                             |
| Invested in Fixed Assets, Net of Related Debt | 11,337,687 | 15,290,809 | 26,628,496 |                             |
| Restricted              |                    |       |                             |                             |
| Unrestricted Net Assets | 6,401,061          | 9,780,421 | 16,181,482 | 340,466                     |
| **Total Net Assets**    | $17,738,748        | $25,071,230 | $42,809,578 | $340,466                    |

The notes to the Financial Statements are an integral part of this statement.
City of Fredericksburg, Texas  
Statement of Activities  
For the Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Charges for Services</th>
<th>Operating Grants and Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Government</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$1,533,156</td>
<td>$93,143</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>1,689,275</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police</td>
<td>3,373,099</td>
<td>159,394</td>
<td>$271,838</td>
</tr>
<tr>
<td>Fire</td>
<td>728,110</td>
<td></td>
<td>37,593</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>67,940</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Streets</td>
<td>1,956,321</td>
<td>12,537</td>
<td></td>
</tr>
<tr>
<td>Parks</td>
<td>1,252,897</td>
<td>373,500</td>
<td>2,645</td>
</tr>
<tr>
<td>Health</td>
<td>130,521</td>
<td>69,255</td>
<td>27,941</td>
</tr>
<tr>
<td>Total Governmental Activities</td>
<td>$10,731,308</td>
<td>$707,826</td>
<td>$340,017</td>
</tr>
<tr>
<td><strong>Business-type Activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>$11,262,905</td>
<td>$11,482,771</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>3,223,018</td>
<td>3,395,607</td>
<td></td>
</tr>
<tr>
<td>Golf</td>
<td>1,356,499</td>
<td>1,000,694</td>
<td></td>
</tr>
<tr>
<td>Landfill</td>
<td>1,706,221</td>
<td>1,671,709</td>
<td></td>
</tr>
<tr>
<td>EMS</td>
<td>1,564,853</td>
<td>915,070</td>
<td></td>
</tr>
<tr>
<td>Drainage</td>
<td>282,133</td>
<td>73,752</td>
<td></td>
</tr>
<tr>
<td>Total Business-type Activities</td>
<td>$19,397,629</td>
<td>$18,540,002</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Government</strong></td>
<td>$30,126,937</td>
<td>$19,247,832</td>
<td>$340,017</td>
</tr>
<tr>
<td><strong>Component Unit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frederickburg Convention and Visitors Bureau</td>
<td>$1,256,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**General Revenues:**
- Taxes
  - Property Taxes
  - Sales Tax
  - Hotel Occupancy Tax
  - Other Taxes
- Miscellaneous Revenue
- Investment Earnings
- Transfers In (Out)
- Total General Revenues

Change in Net Assets
- Net Assets - Beginning
- Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.
### Net (Expense) Revenue and Changes in Net Assets

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Total</th>
<th>Component Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>Convention &amp; Visitors Bureau</td>
</tr>
<tr>
<td>$ (1,440,013)</td>
<td></td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>(1,689,275)</td>
<td></td>
<td>(1,689,275)</td>
<td></td>
</tr>
<tr>
<td>(3,213,695)</td>
<td></td>
<td>(3,213,695)</td>
<td></td>
</tr>
<tr>
<td>(456,272)</td>
<td></td>
<td>(456,272)</td>
<td></td>
</tr>
<tr>
<td>(30,347)</td>
<td></td>
<td>(30,347)</td>
<td></td>
</tr>
<tr>
<td>(1,943,783)</td>
<td></td>
<td>(1,943,783)</td>
<td></td>
</tr>
<tr>
<td>(876,752)</td>
<td></td>
<td>(876,752)</td>
<td></td>
</tr>
<tr>
<td>(33,324)</td>
<td></td>
<td>(33,324)</td>
<td></td>
</tr>
<tr>
<td>$ (9,683,461)</td>
<td></td>
<td>$</td>
<td>(9,683,461)</td>
</tr>
<tr>
<td>$ 219,866</td>
<td></td>
<td>$</td>
<td>219,866</td>
</tr>
<tr>
<td>172,789</td>
<td></td>
<td>$</td>
<td>172,789</td>
</tr>
<tr>
<td>(357,605)</td>
<td></td>
<td>(357,605)</td>
<td></td>
</tr>
<tr>
<td>(34,513)</td>
<td></td>
<td>(34,513)</td>
<td></td>
</tr>
<tr>
<td>(649,782)</td>
<td></td>
<td>(649,782)</td>
<td></td>
</tr>
<tr>
<td>(208,381)</td>
<td></td>
<td>(208,381)</td>
<td></td>
</tr>
<tr>
<td>$ -</td>
<td></td>
<td>$</td>
<td>(857,627)</td>
</tr>
<tr>
<td>$ (9,683,461)</td>
<td></td>
<td>$</td>
<td>(10,541,088)</td>
</tr>
<tr>
<td>$ (1,255,133)</td>
<td></td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

|                          |                          | $     |                  |
| 2,681,736               |                          | $     | 3,079,856       |
| 3,701,322               |                          | $     | 3,701,322       |
| 1,702,381               |                          | $     | 1,702,381       |
| 585,615                 |                          | $     | 585,615         |
| 85,054                  |                          | $     | 1,985,856       |
| 46,944                  |                          | $     | 91,791          |
| 626,315                 |                          | $     | (118,518)       |
| $ 9,429,368             |                          | $     | 11,028,312      |
| $ (254,093)             |                          | $     | 487,224         |
| $ 17,962,841            |                          | $     | 42,322,753      |
| $ 17,738,748            |                          | $     | 42,809,977      |
| $ 340,486               |                          | $     |                  |

13
# City of Fredericksburg
## Governmental Funds
### Balance Sheet
#### September 30, 2010

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$2,329,849</td>
<td>$143,831</td>
<td>$2,473,680</td>
</tr>
<tr>
<td>Investments</td>
<td>2,990,000</td>
<td></td>
<td>2,990,000</td>
</tr>
<tr>
<td>Taxes Receivable (Net of Allowance for Uncollectible)</td>
<td>506,864</td>
<td></td>
<td>506,864</td>
</tr>
<tr>
<td>Receivable (Net of Allowance for Uncollectible)</td>
<td>210,972</td>
<td></td>
<td>210,972</td>
</tr>
<tr>
<td>Intergovernmental Receivables</td>
<td>687,428</td>
<td></td>
<td>687,428</td>
</tr>
<tr>
<td>Due from Other Funds</td>
<td>169,327</td>
<td>31,339</td>
<td>200,666</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$6,894,441</td>
<td>$175,169</td>
<td>$7,069,610</td>
</tr>
</tbody>
</table>

### Liabilities and Fund Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$648,353</td>
<td></td>
<td>648,353</td>
</tr>
<tr>
<td>Wages and Salaries Payable</td>
<td>69,233</td>
<td></td>
<td>69,233</td>
</tr>
<tr>
<td>Intergovernmental Payable</td>
<td>54,587</td>
<td></td>
<td>54,587</td>
</tr>
<tr>
<td>Due to other Funds</td>
<td>108,654</td>
<td>$2,301</td>
<td>110,956</td>
</tr>
<tr>
<td>Deferred Revenues</td>
<td>142,227</td>
<td></td>
<td>142,227</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>118,188</td>
<td></td>
<td>118,188</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$1,141,242</td>
<td>$2,301</td>
<td>$1,143,543</td>
</tr>
</tbody>
</table>

### Fund Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service</td>
<td>172,868</td>
<td>172,868</td>
</tr>
<tr>
<td>Unreserved reported in General Fund</td>
<td>5,753,199</td>
<td>5,753,199</td>
</tr>
<tr>
<td><strong>Total Fund Balances</strong></td>
<td>$5,753,199</td>
<td>$5,926,067</td>
</tr>
</tbody>
</table>

#### Total Liabilities and Fund Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$6,894,441</td>
<td>$175,169</td>
<td>$7,069,610</td>
</tr>
</tbody>
</table>

The notes to the Financial Statements are an integral part of this statement.
Total Fund Balances - Governmental Funds

The City uses an internal service fund to charge the cost of hospitalization self insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $30,456,785 and the accumulated depreciation was $14,136,933. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) in the government-wide financials is an increase (decrease) to net assets.

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases to capital assets in the government-wide financial statements. The net effect of including 2010 capital outlays is an increase (decrease) to net assets.

The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year’s depreciation is to increase (decrease) net assets.

Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets.

Current year proceeds from issuance of long-term debt are reported as other financing sources in the fund financial statements, but they should be shown as an increase to long-term debt in the government-wide financial statements. The net effect of including 2010 bond proceeds is an increase (decrease) to net assets.

Current year long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of including 2010 debt principal payments is to increase (decrease) net assets.

Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.

Net Assets of Governmental Activities

$17,738,748

The notes to the Financial Statements are an integral part of this statement.
## City of Fredericksburg, Texas
### Governmental Funds
#### Statement of Revenues, Expenditures, and Changes in Fund Balances
#### For the Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Revenues</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Property Taxes</td>
<td>$1,866,940</td>
<td>$791,362</td>
<td>$2,658,303</td>
</tr>
<tr>
<td>General Sales and Use Taxes</td>
<td>3,701,322</td>
<td></td>
<td>3,701,322</td>
</tr>
<tr>
<td>Hotel Occupancy Taxes</td>
<td>1,702,381</td>
<td></td>
<td>1,702,381</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>585,615</td>
<td></td>
<td>585,615</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>128,010</td>
<td></td>
<td>128,010</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>12,537</td>
<td></td>
<td>12,537</td>
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<tr>
<td>Fines</td>
<td>150,133</td>
<td></td>
<td>150,133</td>
</tr>
<tr>
<td>Pavilion and Camping Fees</td>
<td>350,227</td>
<td></td>
<td>350,227</td>
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<tr>
<td>Rentals</td>
<td>33,987</td>
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<td>33,987</td>
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<tr>
<td>Intergovernmental Revenue</td>
<td>320,807</td>
<td></td>
<td>320,807</td>
</tr>
<tr>
<td>Grants</td>
<td>16,565</td>
<td></td>
<td>16,565</td>
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<tr>
<td>Investment Earnings</td>
<td>40,252</td>
<td>6,692</td>
<td>46,944</td>
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<tr>
<td>Other Revenues</td>
<td>115,702</td>
<td></td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$9,024,479</strong></td>
<td><strong>$798,054</strong></td>
<td><strong>$9,822,533</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$1,164,025</td>
<td>$67,767</td>
<td>$1,231,792</td>
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<tr>
<td>Tourism</td>
<td>1,689,275</td>
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<td>1,689,275</td>
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<tr>
<td>Police</td>
<td>3,107,117</td>
<td></td>
<td>3,107,117</td>
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<tr>
<td>Fire</td>
<td>609,803</td>
<td></td>
<td>609,803</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>58,635</td>
<td></td>
<td>58,635</td>
</tr>
<tr>
<td>Streets</td>
<td>1,413,551</td>
<td></td>
<td>1,413,551</td>
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<tr>
<td>Parks</td>
<td>942,550</td>
<td></td>
<td>942,550</td>
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<tr>
<td>Health</td>
<td>125,826</td>
<td></td>
<td>125,826</td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>95,496</td>
<td>523,025</td>
<td>618,521</td>
</tr>
<tr>
<td>Interest</td>
<td>11,098</td>
<td>117,449</td>
<td>128,547</td>
</tr>
<tr>
<td>Capital Outlays</td>
<td>428,852</td>
<td></td>
<td>428,852</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>$9,646,226</strong></td>
<td><strong>$708,241</strong></td>
<td><strong>$10,354,467</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Excess of Revenues Over (Under) Expenditures</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$(621,747)</td>
<td>$86,814</td>
<td>$(531,934)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Other Financing Sources (Uses)</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment to Refunding Agent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>$1,096,463</td>
<td></td>
<td>$1,096,463</td>
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<tr>
<td>Transfers (out)</td>
<td>$(470,148)</td>
<td></td>
<td>$(470,148)</td>
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<tr>
<td>Proceeds from 2010 Refunding GO</td>
<td></td>
<td>3,633,351</td>
<td>3,633,351</td>
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<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td><strong>$626,315</strong></td>
<td><strong>$75,063</strong></td>
<td><strong>$701,379</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$4,566</td>
<td>$164,877</td>
<td>$169,445</td>
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</table>

<table>
<thead>
<tr>
<th>Fund Balances - Beginning</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,748,631</td>
<td></td>
<td>5,756,622</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund Balances - Ending</th>
<th>General</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,753,199</td>
<td>$172,868</td>
<td>$5,926,067</td>
</tr>
</tbody>
</table>

The notes to the Financial Statements are an integral part of this statement.
City of Fredericksburg  
Reconciliation of the Governmental Funds Balance Sheet to  
the Statement of Net Assets  
September 30, 2010  

Total Net Change in Fund Balances - Governmental Funds  
$169,443  
(219,609)  

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

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

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

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

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

Some expenses in the Statement of Activities do not require the use of current  
financial resources and therefore are not reported as expenditures in governmental funds.  
Compensated Balances  
(22,814)  
Accrued Interest Expense  
7,567  

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

Deferred Revenue  
23,483  

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

The notes to the Financial Statements are an integral part of this statement.
ASSETS
Current assets:
Cash and Cash Equivalents $1,359,837 $3,574,234 $(660,596) $1,048,374
Investments 500,000 1,500,000 737 1,000,000
Internal Balances 2,297,691 310 250,000
Intergovernmental Receivable - - 128,533
Accounts Receivable (Net of Allowance) 1,313,634 434,944 1,766,686
Inventory 727,654 169,786 39,306
Total Current Assets $6,198,816 $5,679,274 $(370,553) $2,176,906

Non-current Assets:
Property and Equipment
Land $100,117 $474,542 $305,399 $206,549
Buildings 1,983,608 2,385,773 1,803,656 66,468
Improvements 8,130,819 22,971,378 1,240,964 3,407,348
Machinery and Equipment 1,680,796 1,953,432 989,708 2,967,087
Less: Accumulated Depreciation (6,679,986) (11,218,626) (1,967,690) (5,176,201)
Total Noncurrent Assets $3,215,504 $16,566,299 $2,382,237 $1,475,241
Total Assets $9,414,320 $22,245,574 $2,011,884 $3,652,148

LIABILITIES
Current Liabilities:
Accounts Payable $929,823 $373,179 $69,553 $65,566
Accrued Payroll 12,916 16,777 10,538 9,331
Intergovernmental Payable 108,585 - 10,354 12,205
Accrued Interest Payable 33,164 1,916
Internal Balances 64,702 301,839 2,000,636 18,668
Other Current Liabilities 284,270 137,726 17,407 10,000
Capital Leases Payable 59,017
Bonds Payable-Current Maturity
General Obligation Bonds 293,097 89,097
Revenue Bonds 205,000
Limited Tax Notes 965,000
Total Current Liabilities $1,400,297 $2,325,781 $2,258,517 $115,800

Non-current Liabilities:
Bonds Payable-Non Current
General Obligation Bonds 628,800 -
Revenue Bonds 1,670,000
Limited Tax Notes 4,310,000
Unamortized Charge-Refunding Bond (114,969) (2,820)
Unamortized Premiums (Discount) on Bonds 5,811 113
Compensated Absences 147,248 117,705 54,001 77,112
Closure and Post Closure Liability 1,692,549
Total Noncurrent Liabilities $147,248 $6,617,447 $51,294 $1,766,686
Total Liabilities $1,547,544 $8,943,228 $2,309,811 $1,885,461

Net Assets
Invested in Fixed Assets, Net of Related Debt
Restricted for:
Unrestricted 7,866,776 13,302,346 (298,126) 1,766,686
Total Net Assets $7,866,776 $13,302,346 $(298,126) $1,766,686

The notes to the Financial Statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>EMS</th>
<th>Drainage</th>
<th>Enterprise Fund</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 28,134</td>
<td>$ 288,728</td>
<td>$ 5,638,712</td>
<td>$ 328,156</td>
</tr>
<tr>
<td>200,000</td>
<td>3,200,000</td>
<td>250,000</td>
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</tr>
<tr>
<td>37,545</td>
<td>15,730</td>
<td>2,352,014</td>
<td>6,644</td>
</tr>
<tr>
<td>250,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>270,818</td>
<td>6,421</td>
<td>2,154,350</td>
<td>621</td>
</tr>
<tr>
<td></td>
<td></td>
<td>936,745</td>
<td></td>
</tr>
<tr>
<td>$ 336,497</td>
<td>$ 510,880</td>
<td>$ 14,531,821</td>
<td>$ 585,421</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 366,666</td>
<td></td>
<td>1,088,608</td>
<td></td>
</tr>
<tr>
<td>6,608,362</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,061</td>
<td>4,359,774</td>
<td>40,117,344</td>
<td></td>
</tr>
<tr>
<td>1,111,055</td>
<td>2,330</td>
<td>8,704,409</td>
<td></td>
</tr>
<tr>
<td>(1,015,228)</td>
<td>(1,600,846)</td>
<td>(29,647,626)</td>
<td></td>
</tr>
<tr>
<td>$ 471,554</td>
<td>$ 2,761,258</td>
<td>$ 26,872,094</td>
<td>$ -</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 808,051</td>
<td>$ 3,272,138</td>
<td>$ 41,403,915</td>
<td>$ 585,421</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 9,670</td>
<td>-</td>
<td>$ 1,447,821</td>
<td>$ 150,000</td>
</tr>
<tr>
<td>11,145</td>
<td></td>
<td>60,707</td>
<td></td>
</tr>
<tr>
<td>41,633</td>
<td></td>
<td>172,778</td>
<td></td>
</tr>
<tr>
<td>1,848</td>
<td>3,117</td>
<td>40,045</td>
<td></td>
</tr>
<tr>
<td>61,492</td>
<td>746</td>
<td>2,448,083</td>
<td>285</td>
</tr>
<tr>
<td>73,544</td>
<td></td>
<td>132,561</td>
<td></td>
</tr>
<tr>
<td>277,553</td>
<td></td>
<td>659,846</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>205,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>965,000</td>
<td></td>
</tr>
<tr>
<td>$ 199,334</td>
<td>$ 281,516</td>
<td>$ 6,581,245</td>
<td>$ 150,285</td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1,144,418</td>
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<td>1,773,218</td>
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</tr>
<tr>
<td>1,670,000</td>
<td></td>
<td>4,310,000</td>
<td></td>
</tr>
<tr>
<td>(39,306)</td>
<td>(157,095)</td>
<td>(1,692,549)</td>
<td></td>
</tr>
<tr>
<td>53,966</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 53,966</td>
<td>$ 1,111,824</td>
<td>$ 9,751,440</td>
<td>$ -</td>
</tr>
<tr>
<td>$ 253,299</td>
<td>$ 1,393,341</td>
<td>$ 16,332,684</td>
<td>$ 150,285</td>
</tr>
</tbody>
</table>

| 554,752   | 1,878,797 | 25,071,230          | 435,136                 |
| $ 554,752 | $ 1,878,797 | $ 25,071,230        | $ 435,136               |
City of Fredericksburg, Texas  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Business-type Activities - Proprietary Funds</th>
<th>Electric</th>
<th>Water</th>
<th>Golf</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric Sales</td>
<td>$11,444,298</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Sales</td>
<td>$1,950,983</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sewer Sales</td>
<td>$1,433,090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Golf Course Fees</td>
<td>$1,000,894</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garbage Collection and Tipping Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMS Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drainage Utilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>8,597</td>
<td>11,733</td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rents and Royalties</td>
<td>29,876</td>
<td>3,153</td>
<td></td>
</tr>
<tr>
<td>Other Revenue</td>
<td>211,470</td>
<td>797,558</td>
<td>554,261</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$11,694,241</td>
<td>$4,195,518</td>
<td>$1,555,155</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>$825,845</td>
<td>$841,893</td>
<td>$513,963</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>215,983</td>
<td>241,216</td>
<td>159,894</td>
</tr>
<tr>
<td>Contracted Services</td>
<td>115,044</td>
<td>35,797</td>
<td>9,230</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>9,802,290</td>
<td>1,060,141</td>
<td>490,711</td>
</tr>
<tr>
<td>Amortization of Bond Costs</td>
<td></td>
<td>6,782</td>
<td>55</td>
</tr>
<tr>
<td>Depreciation</td>
<td>303,743</td>
<td>710,912</td>
<td>173,464</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$11,262,905</td>
<td>$2,895,742</td>
<td>$1,347,317</td>
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<tr>
<td>Operating Income (Loss)</td>
<td>$431,336</td>
<td>$1,299,776</td>
<td>$207,837</td>
</tr>
<tr>
<td>Nonoperating Revenues (Expenses):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>$3,284</td>
<td>$34,027</td>
<td>$435</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>(328,276)</td>
<td>(252,900)</td>
<td>(11,182)</td>
</tr>
<tr>
<td>Transfers to Other Funds</td>
<td>(699,800)</td>
<td>(252,900)</td>
<td></td>
</tr>
<tr>
<td>Transfers from Other Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Nonoperating Revenues (Expenses)</strong></td>
<td>($696,516)</td>
<td>($545,150)</td>
<td>($10,747)</td>
</tr>
<tr>
<td>Changes in Net Assets</td>
<td>$265,180</td>
<td>$754,627</td>
<td>$197,091</td>
</tr>
<tr>
<td>Total Net Assets - Beginning</td>
<td>8,131,957</td>
<td>12,547,717</td>
<td>(495,215)</td>
</tr>
<tr>
<td>Total Net Assets - Ending</td>
<td>$7,866,777</td>
<td>$13,302,344</td>
<td>$(298,124)</td>
</tr>
</tbody>
</table>

The notes to the Financial Statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>Landfill</th>
<th>EMS</th>
<th>Drainage</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 1,664,659</td>
<td>$ 915,070</td>
<td>$ 73,752</td>
<td>$ 11,444,298</td>
</tr>
<tr>
<td>150</td>
<td>398,120</td>
<td></td>
<td>20,480</td>
</tr>
<tr>
<td>6,900</td>
<td>334,242</td>
<td>0</td>
<td>39,929</td>
</tr>
<tr>
<td>$ 1,671,837</td>
<td>$ 1,249,312</td>
<td>$ 471,871</td>
<td>$ 20,838,934</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$ 936,985</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Governmental Activities Internal Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 504,862</td>
</tr>
<tr>
<td>$ 156,070</td>
</tr>
<tr>
<td>$ 8,685</td>
</tr>
<tr>
<td>$ 612,140</td>
</tr>
<tr>
<td>424,455</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

| $ 1,706,221 | $ 1,560,892 | $ 221,147 | $ 18,995,224 |
| (34,385)    | (311,580)   | 250,724   | $ 1,843,709 |
| (221,117)   |             |           |             |

| $ 3,640     | $ 11        | $ 44,846  |
| (100,500)   | (3,961)     | (402,405) |
| 308,367     |             | (1,053,200)|
| $ (96,860)  | $ 304,417   | (57,536)  |
| (1,102,392) |             | $ 1,508   |

| $ (131,245) | $ (7,163)   | $ 741,318  |
| 1,897,929   | 561,915     | 24,329,912 |
| $ 25,071,230 |           | 654,745   |

| $ 1,766,684 | $ 554,752   | $ 1,878,797 |
| $ 435,136   |             |             |
City of Fredericksburg, Texas  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Electric</td>
</tr>
<tr>
<td>Cash Received from Customers</td>
<td>$11,666,918</td>
</tr>
<tr>
<td>Cash Payments to Employees for Services</td>
<td>(1,070,964)</td>
</tr>
<tr>
<td>Cash Payments for Supplies</td>
<td>(10,000,895)</td>
</tr>
<tr>
<td>Net Cash Provided (Used) by Operating Activities</td>
<td>$595,059</td>
</tr>
</tbody>
</table>

| Cash Flows from Non-capital Financing Activities |  
| Operating Transfers Out | $ (699,800) | (252,900) |  
| Operating Transfers In |  |  |  
| Net Cash Provided (Used) by Non-capital Financing Activities | $ (699,800) | (252,900) |  

| Cash Flows from Capital and Related Financing Activities | Enterprise Funds |  
| Acquisition of Capital Assets | $75,650 | (373,303) |  
| Bond Proceeds | 935,147 |  |  
| Bond Issuance Costs | 15,693 |  |  
| Principal Paid on Capital Debt | (2,321,659) |  |  
| Interest Paid on Capital Debt | (326,276) |  |  
| Deferred Loss on Early Retirement of Debt |  |  |  
| Net Cash Provided (Used) by Capital and Related Financing Activities | $75,650 | (2,070,398) |  

| Cash Flows from Investing Activities | Enterprise Funds |  
| Interest Received on Investments | $3,284 | $34,027 |  
| Net Cash Provided by Investing Activities | $3,284 | $34,027 |  

| Net Increase (Decrease) in Cash and Cash Equivalents | Enterprise Funds |  
| $ (177,107) | (210,550) |  

| Cash and Cash Equivalents, Beginning | Enterprise Funds |  
| 2,036,944 | 5,284,784 |  

| Cash and Cash Equivalents, Ending | Enterprise Funds |  
| $1,859,837 | $5,074,234 |  

The notes to the Financial Statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>Golf</th>
<th>Landfill</th>
<th>EMS</th>
<th>Drainage</th>
<th>Totals</th>
<th>Internal Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 1,563,069 (693,578) (734,320)</td>
<td>$ 1,726,315 (677,622) (498,414)</td>
<td>$ 1,217,433 (1,102,718) (332,988)</td>
<td>$ 471,868 (19,483) (12,586,848)</td>
<td>$ 20,837,685 (4,557,495) (1,023,461)</td>
<td>$ 937,575</td>
</tr>
<tr>
<td>$ 135,171</td>
<td>$ 550,279</td>
<td>$ 218,273</td>
<td>$ 452,385</td>
<td>$ 3,593,342</td>
<td>$ (85,866)</td>
</tr>
<tr>
<td>$ (100,500)</td>
<td>$ 308,367</td>
<td>$ (1,053,200)</td>
<td>$ 308,367</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>$ (41,929)</td>
<td>$ (386,278)</td>
<td>$ (23,028)</td>
<td>$ (7,258)</td>
<td>$ (907,446)</td>
<td>$ 1,440,402</td>
</tr>
<tr>
<td>90,347</td>
<td>(70,732)</td>
<td>(3,961)</td>
<td>(3,961)</td>
<td>(5,038)</td>
<td>(5,038)</td>
</tr>
<tr>
<td>3,704</td>
<td>(70,732)</td>
<td>(3,961)</td>
<td>(3,961)</td>
<td>(5,038)</td>
<td>(5,038)</td>
</tr>
<tr>
<td>(207,552)</td>
<td>(166,612)</td>
<td>(97,721)</td>
<td>(319,554)</td>
<td>(3,135,610)</td>
<td>$ -</td>
</tr>
<tr>
<td>(11,182)</td>
<td>(386,278)</td>
<td>(386,278)</td>
<td>(97,721)</td>
<td>(319,554)</td>
<td>(3,135,610)</td>
</tr>
<tr>
<td>$ 435</td>
<td>$ 3,640</td>
<td>$ 11</td>
<td>$ 3,450</td>
<td>$ 44,847</td>
<td>$ 1,508</td>
</tr>
<tr>
<td>$ 435</td>
<td>$ 3,640</td>
<td>$ 11</td>
<td>$ 3,450</td>
<td>$ 44,847</td>
<td>$ 1,508</td>
</tr>
<tr>
<td>$ (31,006)</td>
<td>$ 67,141</td>
<td>$ (7,616)</td>
<td>$ 136,281</td>
<td>$ (222,357)</td>
<td>$ (64,378)</td>
</tr>
<tr>
<td>(629,560)</td>
<td>1,981,231</td>
<td>35,750</td>
<td>352,447</td>
<td>9,061,568</td>
<td>662,534</td>
</tr>
<tr>
<td>(660,596)</td>
<td>2,048,372</td>
<td>28,134</td>
<td>488,728</td>
<td>8,838,709</td>
<td>578,156</td>
</tr>
</tbody>
</table>
City of Fredericksburg, Texas  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2010

<table>
<thead>
<tr>
<th>Enterprise Funds</th>
<th>Electric</th>
<th>Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income (Loss)</td>
<td>$431,336</td>
<td>$1,299,776</td>
</tr>
</tbody>
</table>

Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:
- Depreciation: 303,743
- Amortization: 710,912
- Loss on Disposal of Assets: 6,782

Effect of Increases and Decreases in Current Assets and Liabilities:
- Decrease (Increase) in Receivables: (27,323)
- Decrease (Increase) in Due from Other Funds: (22,636)
- Decrease (Increase) in Due from Other Governments: (29,136)
- Decrease (Increase) in Inventories: 51,364
- Decrease (Increase) in Deferred Charges: 15,917
- Increase (Decrease) in Accounts Payable: 27,102
- Increase (Decrease) in Wages Payable: (29,504)
- Increase (Decrease) in Interest Payable: (9,074)
- Increase (Decrease) in Due to Other Funds: 23,874
- Increase (Decrease) in Due to Other Governments: 146,912
- Increase (Decrease) in Compensated Absences Payable: (79,600)
- Increase (Decrease) in Landfill Closure Liability: 8,334
- Increase (Decrease) in Other Current Liabilities: 4,730

Net Cash Provided by (Used For) Operating Activities: $595,059 $2,078,721

The notes to the Financial Statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>Golf</th>
<th>Landfill</th>
<th>EMS</th>
<th>Drainage</th>
<th>Totals</th>
<th>Internal Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>$207,837</td>
<td>$ (34,385)</td>
<td>$ (311,580)</td>
<td>$250,724</td>
<td>$1,843,708</td>
<td>$ (221,117)</td>
</tr>
<tr>
<td>173,464</td>
<td>424,455</td>
<td>97,895</td>
<td>218,273</td>
<td>1,928,742</td>
<td>7,716</td>
</tr>
<tr>
<td>55</td>
<td></td>
<td></td>
<td>879</td>
<td></td>
<td>995</td>
</tr>
<tr>
<td>7,914</td>
<td>54,478</td>
<td>(31,879)</td>
<td>(4)</td>
<td>(1,249)</td>
<td>590</td>
</tr>
<tr>
<td>(737)</td>
<td>(37,545)</td>
<td>(10,422)</td>
<td></td>
<td>(71,650)</td>
<td>59,356</td>
</tr>
<tr>
<td>(250,000)</td>
<td></td>
<td>(250,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>65,550</td>
</tr>
<tr>
<td>22,960</td>
<td>6,607</td>
<td>(4,106)</td>
<td>(2,330)</td>
<td>197,145</td>
<td>75,000</td>
</tr>
<tr>
<td>(19,721)</td>
<td>(16,690)</td>
<td>(28,423)</td>
<td></td>
<td>(123,474)</td>
<td></td>
</tr>
<tr>
<td>(327)</td>
<td>(1,776)</td>
<td>(5,482)</td>
<td></td>
<td>(16,659)</td>
<td></td>
</tr>
<tr>
<td>(7,744)</td>
<td>13,176</td>
<td>55,112</td>
<td>746</td>
<td>136,528</td>
<td>285</td>
</tr>
<tr>
<td>(1,471)</td>
<td>(24,730)</td>
<td>41,633</td>
<td></td>
<td>(292,623)</td>
<td></td>
</tr>
<tr>
<td>3,995</td>
<td>4,018</td>
<td>2,395</td>
<td></td>
<td>34,659</td>
<td></td>
</tr>
<tr>
<td>970</td>
<td>122,850</td>
<td></td>
<td></td>
<td>122,850</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11,100</td>
</tr>
<tr>
<td>$135,170</td>
<td>$550,279</td>
<td>$(218,274)</td>
<td>$452,384</td>
<td>$3,593,339</td>
<td>$(85,886)</td>
</tr>
</tbody>
</table>
City of Fredericksburg, Texas  
Fiduciary Funds  
Statement of Net Assets  
September 30, 2010

<table>
<thead>
<tr>
<th></th>
<th>Total Fiduciary Funds</th>
<th>Market Square Trust</th>
<th>Fireman's Relief Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$ 323,417</td>
<td>$ 308,727</td>
<td>$ 14,690</td>
</tr>
<tr>
<td>Total Assets</td>
<td>323,417</td>
<td>308,727</td>
<td>14,690</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>304</td>
<td>304</td>
<td>-</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>304</td>
<td>304</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>323,113</td>
<td>308,423</td>
<td>14,690</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>$ 323,113</td>
<td>$ 308,423</td>
<td>$ 14,690</td>
</tr>
</tbody>
</table>

The notes to the Financial Statements are an integral part of this statement.
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 nonfidiary 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.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Receivables and Payables

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

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

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. (The City defines capital assets as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year.) Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

4. Capital Assets (Continued)

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

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

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

<table>
<thead>
<tr>
<th>Assets</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>10 - 50</td>
</tr>
<tr>
<td>Improvements other than buildings</td>
<td>10 - 50</td>
</tr>
<tr>
<td>Equipment</td>
<td>5 - 15</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>30</td>
</tr>
</tbody>
</table>

5. Compensated Absences

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

6. Long-term Obligations

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

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

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

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

7. Fund Equity

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

8. Net assets

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

9. Use of Estimates

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

10. Reclassifications

Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation. The reclassifications did not change total assets, total liabilities, total fund equity, total revenue of funds and total expense/expenditures.
2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Various other reclassifications and eliminations ......." The details of this $62,504 difference are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Revenues</td>
<td>$54,937</td>
</tr>
<tr>
<td>Accrued Interest Expense</td>
<td>$7,566</td>
</tr>
<tr>
<td>Net adjustment to increase fund balance - total governmental</td>
<td>$62,503</td>
</tr>
<tr>
<td>funds to arrive at net assets - governmental activities</td>
<td></td>
</tr>
</tbody>
</table>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Various other reclassifications and eliminations ......." The details of this $23,483 difference are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reclass delinquent property taxes collected in current year</td>
<td>$23,483</td>
</tr>
<tr>
<td>Net adjustment to increase net changes in fund balances - total</td>
<td></td>
</tr>
<tr>
<td>governmental funds to arrive at changes in net assets of</td>
<td>23,483</td>
</tr>
<tr>
<td>governmental activities</td>
<td></td>
</tr>
</tbody>
</table>
3. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

1. At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Special Revenue Funds.

2. Public hearings are conducted to obtain taxpayer comments.

3. The budget is legally adopted on a fund basis by the City Council.

4. The City Council can adjust the budget during its formal City Council meetings.

5. Actual expenditures cannot exceed the legally-adopted budget.

6. Appropriations lapse at the end of the year.

7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

4. **DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

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

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Weighted Average Maturity (Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tex Pool</td>
<td>$447,643</td>
<td>30</td>
</tr>
<tr>
<td>Portfolio weighted average maturity (days)</td>
<td>$447,643</td>
<td>30</td>
</tr>
</tbody>
</table>

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

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

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

**Deposits and Investments**

*Custodial Credit Risk.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2010, the City had cash deposits of $14,736,305. The total fair market value of pledge securities held as collateral amounted to $15,108,331. In addition $250,000 of the deposits are covered by FDIC insurance.

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

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Rating</th>
<th>Rating Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>TexPool</td>
<td>AAAm</td>
<td>Standard &amp; Poor's</td>
</tr>
</tbody>
</table>

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

1. Obligations of the U.S., its agencies and instrumentalities;

2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed $250,000;

3. No-load money market mutual funds; and

4. TexPool, Lone Star Investment Pool and MBIA Class.

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

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

**Receivables**

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

<table>
<thead>
<tr>
<th>Government Funds</th>
<th>Enterprise Funds</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Electric</td>
<td>Water</td>
</tr>
<tr>
<td>514,364</td>
<td>1,320,242</td>
<td>437,809</td>
</tr>
<tr>
<td>Due from Other Governments</td>
<td>687,428</td>
<td>250,000</td>
</tr>
<tr>
<td>Customer Accounts</td>
<td>102,254</td>
<td>105,000</td>
</tr>
<tr>
<td>Notes</td>
<td>6,450</td>
<td>362</td>
</tr>
</tbody>
</table>

| Gross Receivables | 1,415,496 | 1,320,604 | 438,990 | 250,000 | 128,964 | 310,039 | 6,461 | 3,870,554 |
| Less: Allowance for Uncollectibles | (10,233) | (6,970) | (4,046) | (431) | (39,221) | (40) | (60,941) | |
| Net Total Receivables | 1,405,263 | 1,313,634 | 434,944 | 250,000 | 128,533 | 270,818 | 6,421 | 3,809,613 |

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

<table>
<thead>
<tr>
<th>General Fund – Deferred Revenues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fines Receivable</td>
<td>$ 57,445</td>
</tr>
<tr>
<td>Taxes Receivable – Delinquent</td>
<td>$ 84,782</td>
</tr>
<tr>
<td>Total Deferred Revenues</td>
<td>$ 142,227</td>
</tr>
</tbody>
</table>
4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

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

**Primary Government**

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, not being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$ 2,965,385</td>
<td>-</td>
<td>-</td>
<td>$ 2,965,385</td>
</tr>
<tr>
<td>Total assets not being depreciated</td>
<td>$ 2,965,385</td>
<td>-</td>
<td>-</td>
<td>$ 2,965,385</td>
</tr>
<tr>
<td>Capital assets, being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>7,232,908</td>
<td>94,823</td>
<td>-</td>
<td>7,327,731</td>
</tr>
<tr>
<td>Improvements other than buildings</td>
<td>13,178,323</td>
<td>51,967</td>
<td>-</td>
<td>13,230,290</td>
</tr>
<tr>
<td>Equipment</td>
<td>7,080,167</td>
<td>282,062</td>
<td>80,203</td>
<td>7,282,026</td>
</tr>
<tr>
<td>Total capital assets being depreciated</td>
<td>27,491,398</td>
<td>428,852</td>
<td>80,203</td>
<td>27,840,047</td>
</tr>
<tr>
<td>Less accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>14,136,993</td>
<td>1,189,355</td>
<td>80,203</td>
<td>15,246,145</td>
</tr>
<tr>
<td>Total capital assets being depreciated, net</td>
<td>13,354,405</td>
<td>(760,503)</td>
<td>-</td>
<td>12,593,902</td>
</tr>
<tr>
<td>Governmental activities capital assets, net</td>
<td>$ 16,319,790</td>
<td>(760,503)</td>
<td>-</td>
<td>15,559,287</td>
</tr>
</tbody>
</table>

|                           |                   |           |           |                |
| **Business-type activities:** |                   |           |           |                |
| Capital assets, not being depreciated: |                   |           |           |                |
| Land                      | 1,089,608         | -         | -         | 1,089,608      |
| Total assets not being depreciated | 1,089,608       | -         | -         | 1,089,608      |
| Capital assets, being depreciated: |                   |           |           |                |
| Buildings                 | 6,608,362         | -         | -         | 6,608,362      |
| Improvements other than buildings | 39,710,471       | 439,527   | 32,654    | 40,117,344     |
| Equipment                 | 8,335,312         | 467,919   | 98,822    | 8,704,409      |
| Total capital assets being depreciated | 54,654,145       | 907,446   | 131,476   | 55,430,115     |
| Less accumulated depreciation: |                   |           |           |                |
| Total accumulated depreciation | 27,849,365       | 1,928,743 | 130,479   | 29,647,629     |
| Total capital assets being depreciated, net | 26,804,780       | (1,021,297) | 997      | 25,782,486     |
| Business-type activities capital assets, net | 27,894,388       | (1,021,297) | 997      | 26,872,094     |

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

**Capital Assets** (Continued)

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

Governmental activities:

<table>
<thead>
<tr>
<th>Activity</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>142,302</td>
</tr>
<tr>
<td>Police</td>
<td>150,965</td>
</tr>
<tr>
<td>Fire</td>
<td>98,927</td>
</tr>
<tr>
<td>Streets</td>
<td>495,632</td>
</tr>
<tr>
<td>Parks</td>
<td>292,224</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>9,305</td>
</tr>
</tbody>
</table>

Total depreciation expense – governmental activities $1,189,355

Business-type activities:

<table>
<thead>
<tr>
<th>Activity</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>303,743</td>
</tr>
<tr>
<td>Water and Sewer</td>
<td>710,912</td>
</tr>
<tr>
<td>Golf</td>
<td>173,464</td>
</tr>
<tr>
<td>Landfill</td>
<td>424,455</td>
</tr>
<tr>
<td>EMS</td>
<td>97,895</td>
</tr>
<tr>
<td>Drainage Utilities</td>
<td>218,273</td>
</tr>
</tbody>
</table>

Total depreciation expense – business-type activities $1,928,742

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

Interfund Receivables, Payables and Transfers

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

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

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

**Interfund Receivables, Payables and Transfers** (Continued)

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

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

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

**Interfund transfers:**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Transfers In</th>
<th>Transfers Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric</td>
<td>699,800</td>
<td>308,637</td>
</tr>
<tr>
<td>Water &amp; Sewer</td>
<td>252,900</td>
<td></td>
</tr>
<tr>
<td>Landfill</td>
<td>100,500</td>
<td></td>
</tr>
<tr>
<td>EMS</td>
<td>43,263</td>
<td></td>
</tr>
<tr>
<td>Market Square Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric Fund</td>
<td>699,800</td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Fund</td>
<td>252,900</td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landfill</td>
<td>100,500</td>
<td></td>
</tr>
<tr>
<td>EMS</td>
<td>308,367</td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td></td>
<td>161,782</td>
</tr>
<tr>
<td>Market Square Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>43,263</td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>161,782</td>
<td></td>
</tr>
</tbody>
</table>

Total Transfers $1,566,612 $1,566,612

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

Interfund Receivables, Payables and Transfers (Continued)

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

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

| Electric       | $699,800 |
| Water and Sewer| 252,900  |
| Landfill       | 100,500  |
| **Total**      | **$1,053,200** |

**Capital Leases**

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010 were as follows:

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

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

Long-term Liabilities

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
<th>Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General obligation bonds</td>
<td>$4,019,781</td>
<td>$3,604,164</td>
<td>$4,057,008</td>
<td>$3,566,937</td>
<td>$555,155</td>
</tr>
<tr>
<td>Total bonds payable</td>
<td>$4,019,781</td>
<td>$3,604,164</td>
<td>$4,057,008</td>
<td>$3,566,937</td>
<td>$555,155</td>
</tr>
<tr>
<td>Capitalized leases</td>
<td>321,212</td>
<td></td>
<td>95,496</td>
<td>225,716</td>
<td>98,628</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>406,132</td>
<td>22,814</td>
<td></td>
<td>428,946</td>
<td></td>
</tr>
<tr>
<td>Total governmental activities</td>
<td>$4,747,125</td>
<td>$3,626,978</td>
<td>$4,152,504</td>
<td>$4,221,599</td>
<td>$653,783</td>
</tr>
<tr>
<td>Business-type activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of obligation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of obligation</td>
<td>$2,125,000</td>
<td></td>
<td>$2,125,000</td>
<td>$2,125,000</td>
<td>$2,125,000</td>
</tr>
<tr>
<td>Less: discount on bonds</td>
<td>(40,511)</td>
<td></td>
<td>(40,511)</td>
<td>(40,511)</td>
<td>(40,511)</td>
</tr>
<tr>
<td>Total Certificates of Obligation</td>
<td>2,084,489</td>
<td></td>
<td>2,084,489</td>
<td>2,084,489</td>
<td>2,084,489</td>
</tr>
<tr>
<td>General obligation bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General obligation bonds</td>
<td>900,160</td>
<td>2,465,836</td>
<td>932,932</td>
<td>2,433,064</td>
<td>659,845</td>
</tr>
<tr>
<td>Less: discount on bonds</td>
<td>(7,369)</td>
<td>(28,588)</td>
<td>(8,874)</td>
<td>(27,083)</td>
<td></td>
</tr>
<tr>
<td>Less: premium on bonds</td>
<td></td>
<td>13,444</td>
<td>707</td>
<td>12,737</td>
<td></td>
</tr>
<tr>
<td>Less: deferred amount on refundings</td>
<td>(19,310)</td>
<td>(65,573)</td>
<td>(36,996)</td>
<td>(47,887)</td>
<td></td>
</tr>
<tr>
<td>Total bonds payable</td>
<td>873,481</td>
<td>2,385,119</td>
<td>887,769</td>
<td>2,370,831</td>
<td>659,845</td>
</tr>
<tr>
<td>Revenue Bonds and Notes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>2,070,000</td>
<td></td>
<td>195,000</td>
<td>1,875,000</td>
<td>205,000</td>
</tr>
<tr>
<td>Less: Discount on Bonds</td>
<td>(52,696)</td>
<td></td>
<td>(6,212)</td>
<td>(46,484)</td>
<td></td>
</tr>
<tr>
<td>Limited tax notes</td>
<td>6,200,000</td>
<td></td>
<td>925,000</td>
<td>5,275,000</td>
<td>965,000</td>
</tr>
<tr>
<td>Less: Discount on Bonds</td>
<td>(44,550)</td>
<td></td>
<td>(8,910)</td>
<td>(35,640)</td>
<td></td>
</tr>
<tr>
<td>Total revenue bonds &amp; notes</td>
<td>8,172,754</td>
<td></td>
<td>1,104,878</td>
<td>7,067,876</td>
<td>1,170,000</td>
</tr>
<tr>
<td>Capitalized leases</td>
<td>241,185</td>
<td></td>
<td>108,624</td>
<td>132,561</td>
<td>111,763</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>223,299</td>
<td>226,733</td>
<td></td>
<td>450,032</td>
<td></td>
</tr>
<tr>
<td>Total business-type activities</td>
<td>$11,595,208</td>
<td>$2,611,852</td>
<td>$4,185,760</td>
<td>$10,213,000</td>
<td>$1,941,608</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>$16,342,333</td>
<td>$6,238,830</td>
<td>$8,338,264</td>
<td>$14,242,899</td>
<td>$2,595,391</td>
</tr>
</tbody>
</table>

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

**Long-term Liabilities** (Continued)

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

<table>
<thead>
<tr>
<th>Series</th>
<th>Original Issue</th>
<th>Interest Rate</th>
<th>Debt Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 General Obligation Bonds</td>
<td>3,604,164</td>
<td>1.00%-3.00%</td>
<td>$ 3,566,937</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

**Long-term Liabilities (Continued)**

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

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

**Employee Retirement Systems**

**Texas Municipal Retirement System (TMRS)**

**Plan Description**

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

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

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

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Plan Description (Continued)

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

Deposit Rate: 5%

Matching Ratio (City to Employee): 2 to 1

A member is vested after 5 years

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

Contributions

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

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

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

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

Actuarial Assumptions

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

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

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

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

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees and Beneficiaries Currently Receiving Benefits</td>
<td>2,231</td>
</tr>
<tr>
<td>Terminated Participants Entitled to Benefits but Not Yet Receiving Them</td>
<td>2,106</td>
</tr>
<tr>
<td>Active Participants (Vested and Nonvested)</td>
<td>4,371</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,708</strong></td>
</tr>
</tbody>
</table>

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

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

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

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

**Employee Retirement Systems** (Continued)

**Texas Statewide Emergency Services Personnel Retirement Fund** (Continued)

**Plan Description** (Continued)

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

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates in the Texas Municipal League’s General Liability Fund. In addition, the City participates in the Texas Municipal League’s Workers’ Compensation Fund to insure the City for workers’ compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

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

**Contingent Liabilities**

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

(continued)
4. DETAILLED NOTES ON ALL FUNDS (Continued)

Closure and Postclosure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and postclosure care costs has a balance of $1,692,549 as of September 30, 2010, which is based on 93.41% usage of current open cells and 24.01% usage of the entire landfill. The landfill is expected to be filled to capacity in 2072. It is estimated that an additional $99,942 would be recognized as closure and postclosure cares expenses if the landfill discontinued operations after the current open cells have been completely filled. The estimated total current cost of the landfill closure and postclosure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2010. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.
REQUIRED SUPPLEMENTARY INFORMATION
<table>
<thead>
<tr>
<th>Revenues</th>
<th>Budgeted Amounts</th>
<th>GAAP Basis Actual</th>
<th>Variance With Final Budget Positive or (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td>General Property Taxes</td>
<td>$2,091,000</td>
<td>$2,091,000</td>
<td>$1,866,940</td>
</tr>
<tr>
<td>General Sales and Use Taxes</td>
<td>$3,700,000</td>
<td>$3,700,000</td>
<td>$3,701,322</td>
</tr>
<tr>
<td>Hotel Occupancy Taxes</td>
<td>$1,715,000</td>
<td>$1,715,000</td>
<td>$1,702,381</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$530,000</td>
<td>$530,000</td>
<td>$585,615</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>$118,800</td>
<td>$118,800</td>
<td>$126,010</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$10,800</td>
<td>$10,800</td>
<td>$12,537</td>
</tr>
<tr>
<td>Fines</td>
<td>$100,500</td>
<td>$100,500</td>
<td>$150,133</td>
</tr>
<tr>
<td>Pavilion and Camping Fees</td>
<td>$291,000</td>
<td>$291,000</td>
<td>$350,227</td>
</tr>
<tr>
<td>Rentals</td>
<td>$32,300</td>
<td>$32,300</td>
<td>$33,987</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>$349,000</td>
<td>$349,000</td>
<td>$320,807</td>
</tr>
<tr>
<td>Grants</td>
<td>$17,600</td>
<td>$17,600</td>
<td>$16,565</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>$39,000</td>
<td>$39,000</td>
<td>$40,252</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>$95,400</td>
<td>$95,400</td>
<td>$115,702</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$9,090,400</td>
<td>$9,090,400</td>
<td>$9,024,479</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Budgeted Amounts</th>
<th>GAAP Basis Actual</th>
<th>Variance With Final Budget Positive or (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$1,153,100</td>
<td>$1,153,100</td>
<td>$1,164,025</td>
</tr>
<tr>
<td>Tourism</td>
<td>$1,650,000</td>
<td>$1,650,000</td>
<td>$1,689,275</td>
</tr>
<tr>
<td>Police</td>
<td>$3,035,600</td>
<td>$3,035,600</td>
<td>$3,107,117</td>
</tr>
<tr>
<td>Fire</td>
<td>$653,400</td>
<td>$653,400</td>
<td>$669,803</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>$52,100</td>
<td>$52,100</td>
<td>$58,636</td>
</tr>
<tr>
<td>Streets</td>
<td>$1,462,200</td>
<td>$1,462,200</td>
<td>$1,413,551</td>
</tr>
<tr>
<td>Parks</td>
<td>$1,005,700</td>
<td>$1,005,700</td>
<td>$942,550</td>
</tr>
<tr>
<td>Health</td>
<td>$132,200</td>
<td>$132,200</td>
<td>$125,826</td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>$56,000</td>
<td>$56,000</td>
<td>$95,486</td>
</tr>
<tr>
<td>Interest</td>
<td>$9,200</td>
<td>$9,200</td>
<td>$11,098</td>
</tr>
<tr>
<td>Capital Outlays</td>
<td>$1,549,000</td>
<td>$1,549,000</td>
<td>$428,852</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$10,760,500</td>
<td>$10,760,500</td>
<td>$9,646,226</td>
</tr>
</tbody>
</table>

| Excess of Revenues Over (Under) Expenditures | $1,670,100 | $(1,670,100) | $(621,747) | $1,048,353 |

<table>
<thead>
<tr>
<th>Other Financing Sources (Uses)</th>
<th>Budgeted Amounts</th>
<th>GAAP Basis Actual</th>
<th>Variance With Final Budget Positive or (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td>$1,107,300</td>
<td>$1,107,300</td>
<td>$1,066,463</td>
</tr>
<tr>
<td>Transfers (out)</td>
<td>$392,500</td>
<td>$392,500</td>
<td>$470,148</td>
</tr>
<tr>
<td><strong>Total Other Financing Sources (Uses)</strong></td>
<td>$714,800</td>
<td>$714,800</td>
<td>$626,315</td>
</tr>
</tbody>
</table>

| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | $(955,300) | $(955,300) | $4,568 | 959,668 |

| Fund Balances - Beginning | 5,748,631 | 5,748,631 | 5,748,631 | |
| Fund Balances - Ending    | $4,793,331 | $4,793,331 | $5,753,199 | $(959,868) |

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