



The City of
Fredericksburg,
Texas

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

KLEIN, KRAUS & COMPANY, L.L.C.
Certified Public Accountants

FREDERICKSBURG, TEXAS

CITY OF FREDERICKSBURG
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2011

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Governmental Fund Financial Statements:	
Balance Sheet	14
Reconciliation of Balance Sheet to Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of Statement of Revenues to Statement of Activities	17
Proprietary Fund Financial Statements:	
Statement of Net Assets	18-19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20-21
Statement of Cash Flows	22-25
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	26
Notes of the Financial Statements	27-50
 <u>Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund	51

Klein, Kraus and Company, LLC

Certified Public Accountants

1302 North Llano ~ PO Box 2211

Fredericksburg, Texas 78624

830/997-5592 ~ Fax 830/990-2292

kkcpa@austin.rr.com

Independent Auditor's Report

Mayor and City Council
City of Fredericksburg, Texas
Fredericksburg, Texas 78624

Mayor and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, 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, 2011, 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, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2011, 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 RSI such as budgetary comparison information if not presented in the Basic Financial Statements on pages 3 through 26 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.

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

Klein, Kraus and Company, LLC
Klein, Kraus and Company, LLC

April 19, 2012

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2011, by \$42,406,117 (net assets). Of this amount, \$14,802,349 (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 decreased by \$403,861.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,974,424. Approximately 99 percent of the total amount, \$5,926,065 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2011, unreserved fund balance for the General Fund was \$5,926,065 or 59 percent of the current year's total General Fund expenditures of \$10,246,207.

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 \$42,406,116 as of September 30, 2011, compared to \$42,809,978 as of September 30, 2010.

CITY OF FREDERICKSBURG’S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,521,602	\$ 7,606,573	\$ 13,487,479	\$ 14,531,821	\$ 21,009,081	\$ 22,138,394
Capital assets	14,617,029	15,559,287	26,827,411	26,872,095	41,444,440	42,431,382
Total assets	<u>22,138,631</u>	<u>23,165,860</u>	<u>40,314,890</u>	<u>41,403,916</u>	<u>62,453,521</u>	<u>64,659,776</u>
Current liabilities	947,088	1,205,512	5,259,644	4,751,400	6,206,732	5,956,912
Noncurrent liabilities	<u>3,678,616</u>	<u>4,221,600</u>	<u>10,162,056</u>	<u>11,581,286</u>	<u>13,840,672</u>	<u>15,802,886</u>
Total liabilities	<u>4,625,704</u>	<u>5,427,112</u>	<u>15,421,700</u>	<u>16,332,686</u>	<u>20,047,404</u>	<u>21,759,798</u>
Net Assets:						
Invested in capital assets,						
Net of related debt	10,938,413	12,091,320	16,665,355	11,810,047	27,603,768	23,901,367
Restricted	-	-	-	-	-	-
Unrestricted	<u>6,574,514</u>	<u>6,889,355</u>	<u>8,227,835</u>	<u>11,148,398</u>	<u>14,802,349</u>	<u>18,037,753</u>
Total net assets	<u>\$ 17,512,927</u>	<u>\$ 17,738,748</u>	<u>\$ 24,893,190</u>	<u>\$ 25,071,230</u>	<u>\$ 42,406,117</u>	<u>\$ 42,809,978</u>

By far the largest portion of the City’s net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$14,802,349 may be used to meet the government’s ongoing obligations to citizens and creditors.

City of Fredericksburg
Statement of Activities
For Fiscal Years 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services	\$ 753,743	\$ 707,829	\$ 19,154,381	\$ 18,540,002	\$ 19,908,124	\$ 19,247,831
Operating Grants and Contributions	399,963	340,017	-	-	399,963	340,017
General Revenues:						
Property Taxes	2,851,872	2,681,736	242,126	398,120	3,093,998	3,079,856
Sales Taxes	3,845,482	3,701,322	-	-	3,845,482	3,701,322
Hotel Occupancy Taxes	1,717,287	1,702,381	-	-	1,717,287	1,702,381
Other Taxes	574,173	585,615	-	-	574,173	585,615
Miscellaneous Revenue	72,104	85,054	795,458	1,900,812	867,562	1,985,866
Investments Earnings	34,960	46,944	67,979	44,846	102,939	91,790
Total Revenues	<u>\$ 10,249,584</u>	<u>\$ 9,850,898</u>	<u>\$ 20,259,944</u>	<u>\$ 20,883,780</u>	<u>\$ 30,509,528</u>	<u>\$ 30,734,678</u>
Expenses						
Administrative	\$ 3,153,060	\$ 3,222,431	-	-	\$ 3,153,060	\$ 3,222,431
Police	3,312,811	3,373,089	-	-	3,312,811	3,373,089
Fire	759,383	728,110	-	-	759,383	728,110
Streets	2,173,501	1,956,321	-	-	2,173,501	1,956,321
Parks	1,411,051	1,252,897	-	-	1,411,051	1,252,897
Health	129,024	130,518	-	-	129,024	130,518
Emergency Management	63,377	67,940	-	-	63,377	67,940
Electric	-	-	\$ 10,933,373	\$ 11,262,905	10,933,373	11,262,905
Water and Sewer	-	-	3,686,755	3,223,018	3,686,755	3,223,018
Golf	-	-	1,460,266	1,358,499	1,460,266	1,358,499
Landfill	-	-	1,794,439	1,706,221	1,794,439	1,706,221
EMS	-	-	1,626,503	1,564,853	1,626,503	1,564,853
Drainage Utilities	-	-	249,997	282,133	249,997	282,133
Loss on Retirement of Assets	159,849	-	-	-	159,849	-
Total Expenses	<u>\$ 11,162,056</u>	<u>\$ 10,731,306</u>	<u>\$ 19,751,333</u>	<u>\$ 19,397,629</u>	<u>\$ 30,913,389</u>	<u>\$ 30,128,936</u>
Increase (decrease) in Net Assets Before Transfers	<u>\$ (912,472)</u>	<u>\$ (880,408)</u>	<u>\$ 508,611</u>	<u>\$ 1,486,151</u>	<u>\$ (403,861)</u>	<u>\$ 605,742</u>
Transfers	686,651	626,315	(686,651)	(744,833)	-	(118,518)
Change in Net Assets	<u>\$ (225,821)</u>	<u>\$ (254,093)</u>	<u>\$ (178,040)</u>	<u>\$ 741,318</u>	<u>\$ (403,861)</u>	<u>\$ 487,224</u>
Net Assets, Beginning	\$ 17,738,748	\$ 17,992,841	\$ 25,071,230	\$ 24,329,912	\$ 42,809,978	\$ 42,322,753
Prior Period Adjustment	-	-	-	-	-	-
Net Assets, Beginning	<u>\$ 17,738,748</u>	<u>\$ 17,992,841</u>	<u>\$ 25,071,230</u>	<u>\$ 24,329,912</u>	<u>\$ 42,809,978</u>	<u>\$ 42,322,753</u>
Net Assets, Ending	<u>\$ 17,512,927</u>	<u>\$ 17,738,748</u>	<u>\$ 24,893,190</u>	<u>\$ 25,071,230</u>	<u>\$ 42,406,117</u>	<u>\$ 42,809,977</u>

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

As a whole, the government's net assets decreased by \$403,860 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 \$5,974,424. Approximately 99 percent of this total amount, \$5,926,065 constitutes unreserved fund balance. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City and represents approximately 99 percent of the total governmental fund balance. The total fund balance of the General Fund was unreserved and amounted to \$5,926,065.

The fund balance of the City's General Fund increased by \$172,866 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 \$8,227,833. Net assets of the City's Enterprise Funds decreased by \$178,040 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, 2011, amounts to \$41,444,440 (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:

• Website Redesign	27,000
• Police (2) Vehicles	62,000
• Park Playground Improvements	41,000
• Water & Sewer Improvements (2008 Tax Lmtd. Notes)	
- East Side Sewer	1,005,000
• Landfill Cell #6 Development	738,000
• Street Improvements	54,000
• City Hall - A/C System	47,000
• Golf – Greens Mower & Verticutter	88,000
• EMS – Ambulance	182,000
	<u>\$2,244,000</u>

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

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$10,765,000. 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.

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, 2011, the adopted property tax rate increased from \$.2319 to \$.23650 per \$100 of assessed valuation.

Tax Rate, Levy and Collection History

<u>Fiscal Year Ended September 30</u>	<u>Tax Rate</u>	<u>General Fund</u>	<u>Interest and Sinking Fund</u>	<u>Tax Levy</u>	<u>% Current Collections</u>	<u>% Total Collections</u>
2011	0.2365	0.1794	0.0571	3,059,692	93.74%	98.70%
2010	0.2319	0.1413	0.0906	3,050,545	91.78%	99.29%
2009	0.2350	0.1608	0.0742	3,002,027	92.39%	99.70%
2008	0.2414	0.1606	0.0808	2,760,539	91.76%	99.69%
2007	0.2566	0.1636	0.0930	2,574,997	92.48%	99.83%
2006	0.2596	0.1557	0.1039	2,353,435	93.16%	99.88%
2005	0.2820	0.1681	0.1139	2,314,321	92.15%	99.93%
2004	0.2567	0.1955	0.0612	1,926,198	92.44%	99.91%
2003	0.2370	0.1764	0.0606	1,610,865	93.16%	99.92%
2002	0.2505	0.1939	0.0566	1,501,757	92.02%	99.90%
2001	0.2651	0.2063	0.0588	1,453,310	91.38%	99.90%

**City of Fredericksburg
Budget Comparison
For Fiscal Years 2012 and 2011**

	2011-2012 <u>Budget</u>	2010-2011 <u>Budget</u>	Increase <u>(Decrease)</u>	% Increase <u>(Decrease)</u>
Revenues				
General Fund	\$ 11,062,100	\$ 10,252,100	\$ 810,000	7.90%
Electric	11,789,000	11,951,000	(162,000)	-1.36%
Water & Sewer	4,381,600	4,391,000	(9,400)	-0.21%
Golf	669,000	1,220,500	(551,500)	-45.19%
Landfill	1,832,400	1,728,400	104,000	6.02%
EMS	1,647,000	1,663,700	(16,700)	-1.00%
Drainage	377,900	335,800	42,100	12.54%
Emergency Management	98,400	67,200	31,200	46.43%
Debt Service	400,500	514,200	(113,700)	-22.11%
	<u>\$ 32,257,900</u>	<u>\$ 32,123,900</u>	<u>\$ 134,000</u>	<u>0.42%</u>
Total Revenues				
Expenditures				
General Fund				
Administrative	\$ 3,615,500	\$ 3,436,700	\$ 178,800	5.20%
Police	3,429,100	3,261,400	167,700	5.14%
Fire	761,700	757,900	3,800	0.50%
Street	3,058,100	2,727,700	330,400	12.11%
Park	1,160,700	1,003,500	157,200	15.67%
Health	137,800	137,300	500	0.36%
	<u>\$ 12,162,900</u>	<u>\$ 11,324,500</u>	<u>\$ 838,400</u>	<u>7.40%</u>
	11,645,700	11,649,400	(3,700)	-0.03%
Electric	11,645,700	11,649,400	(3,700)	-0.03%
Water & Sewer	3,993,600	4,384,600	(391,000)	-8.92%
Golf	1,124,500	1,425,600	(301,100)	-21.12%
Landfill	1,531,200	2,510,200	(979,000)	-39.00%
EMS	1,646,900	1,663,700	(16,800)	-1.01%
Drainage	448,600	461,600	(13,000)	-2.82%
Emergency Management	98,300	67,100	31,200	46.50%
Debt Service	438,500	618,900	(180,400)	-29.15%
	<u>\$ 33,090,200</u>	<u>\$ 34,105,600</u>	<u>\$ (1,015,400)</u>	<u>-2.98%</u>
Total Expenditures				
Budgeted Revenues in Excess (Deficiency) of Expenditures				
	<u>\$ (832,300)</u>	<u>\$ (1,981,700)</u>	<u>\$ 1,149,400</u>	

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Brad Kott, Director of Finance, 126 West Main, Fredericksburg, Texas 78624 or call (830) 997-7521.

BASIC FINANCIAL STATEMENTS

City of Fredericksburg, Texas
Statement of Net Assets
September 30, 2011

	Primary Government			Component Unit Convention & Visitors Bureau
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 3,142,451	\$ 3,896,697	\$ 7,039,148	\$ 235,861
Investments - Current	2,755,909	3,240,185	5,996,094	
Tax Receivables (Net of Allowance)	499,820		499,820	
Internal Balances	190,586	3,061,142	3,251,728	
Intergovernmental Receivable	744,046		744,046	
Due from Others	188,789	2,305,485	2,494,274	9
Inventory		983,970	983,970	
Property and Equipment, Net of Depreciation				
Land	2,965,385	1,089,608	4,054,993	
Buildings	7,211,869	6,547,741	13,759,610	
Improvements	13,332,131	41,172,985	54,505,116	
Machinery & Equipment	6,513,002	7,638,207	14,151,209	82,119
Less: Accumulated Depreciation	(15,405,358)	(29,621,130)	(45,026,488)	(48,954)
Total Assets	<u>\$ 22,138,631</u>	<u>\$ 40,314,890</u>	<u>\$ 62,453,521</u>	<u>\$ 269,035</u>
LIABILITIES				
Accounts Payable	558,037	1,304,543	1,862,580	35,117
Accrued Payroll	91,281	77,080	168,361	4,420
Intergovernmental Payable	56,257	183,267	239,524	
Accrued Interest Payable	12,252	31,415	43,667	
Internal Balances	41,142	3,210,586	3,251,728	
Deferred Revenues	76,980		76,980	
Other Current Liabilities	111,138	452,753	563,891	
Noncurrent Liabilities				
Due Within One Year	469,213	1,968,147	2,437,360	
Due in More Than One Year	3,209,403	8,193,909	11,403,312	
Total Liabilities	<u>\$ 4,625,704</u>	<u>\$ 15,421,700</u>	<u>\$ 20,047,404</u>	<u>\$ 39,537</u>
NET ASSETS				
Invested in Fixed Assets, Net of Related Debt	\$ 10,938,413	\$ 18,919,873	\$ 29,858,286	\$ 33,165
Restricted for Long-Term Debt	39,307	1,461,264	1,500,571	
Restricted for Capital Projects		219,588	219,588	
Unrestricted Net Assets	6,535,207	4,292,465	10,827,672	196,333
Total Net Assets	<u>\$ 17,512,927</u>	<u>\$ 24,893,190</u>	<u>\$ 42,406,117</u>	<u>\$ 229,498</u>

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

City of Fredericksburg, Texas
Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Administration	\$ 1,569,471	\$ 94,922	
Tourism	1,583,589		\$ 17,121
Police	3,312,811	179,039.58	
Fire	759,383		\$ 303,854
Emergency Management	63,377		38,816
Streets	2,173,501	15,359	
Parks	1,411,051	390,285	12,131
Health	129,024	74,137	28,040
Total Governmental Activities	<u>\$ 11,002,208</u>	<u>\$ 753,743</u>	<u>\$ 399,963</u>
Business-type Activities:			
Electric	\$10,903,798	\$11,457,967	
Water	3,425,832	4,022,445	
Golf	1,459,578	1,094,425	
Landfill	1,793,932	1,651,313	
EMS	1,626,406	854,219	
Drainage	249,998	74,011	
Total Business-type Activities	<u>\$ 19,459,545</u>	<u>\$ 19,154,381</u>	<u>\$ -</u>
Total Government	<u>\$ 30,461,753</u>	<u>\$ 19,908,125</u>	<u>\$ 399,963</u>
Component Unit			
Fredericksburg Convention and Visitors Bureau	<u>\$ 1,535,453</u>		

General Revenues:
 Taxes
 Property Taxes
 Sales Tax
 Hotel Occupancy Tax
 Other Taxes
 Miscellaneous Revenue
 Investment Earnings
 Transfers In (Out)
 Loss on Retirement of Fixed Assets
 Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit Convention & Visitors Bureau
\$ (1,474,549)		\$ (1,474,549)	
(1,566,468)		(1,566,468)	
(3,133,772)		(3,133,772)	
(455,529)		(455,529)	
(24,561)		(24,561)	
(2,158,142)		(2,158,142)	
(1,008,635)		(1,008,635)	
(26,847)		(26,847)	
<u>\$ (9,848,502)</u>	<u>\$ -</u>	<u>\$ (9,848,502)</u>	
	\$ 554,169	\$ 554,169	
	596,613	596,613	
	(365,154)	(365,154)	
	(142,619)	(142,619)	
	(772,187)	(772,187)	
	(175,987)	(175,987)	
<u>\$ -</u>	<u>\$ (305,164)</u>	<u>\$ (305,164)</u>	
<u>\$ (9,848,502)</u>	<u>\$ (305,164)</u>	<u>\$ (10,153,666)</u>	
			<u>\$ (1,535,453)</u>
\$ 2,851,872	\$ 242,126	\$ 3,093,998	
3,845,482		3,845,482	
1,717,287		1,717,287	
574,173		574,173	
72,104	795,446	867,549	\$ 1,424,465
34,960	67,979	102,940	
686,651	(686,651)	0	
(159,847)	(291,776)	(451,623)	
<u>\$ 9,622,682</u>	<u>\$ 127,124</u>	<u>\$ 9,749,806</u>	<u>\$ 1,424,465</u>
\$ (225,821)	\$ (178,040)	\$ (403,860)	\$ (110,988)
\$ 17,738,748	\$ 25,071,230	\$ 42,809,978	\$ 340,486
<u>\$ 17,512,927</u>	<u>\$ 24,893,190</u>	<u>\$ 42,406,118</u>	<u>\$ 229,498</u>

**City of Fredericksburg
Governmental Funds
Balance Sheet
September 30, 2011**

	General	Debt Service	Total
Assets			
Cash and Cash Equivalents	\$ 2,682,155	\$ 39,307	\$ 2,721,461
Investments	2,500,000		2,500,000
Taxes Receivable (Net of Allowance for Uncollectible)	499,820		499,820
Receivable (Net of Allowance for Uncollectible)	183,936		183,936
Intergovernmental Receivables	744,046		744,046
Due from Other Funds	197,487	9,051	206,538
Total Assets	\$ 6,807,444	\$ 48,358	\$ 6,855,802
 Liabilities and Fund Balance			
Accounts Payable	\$ 408,037		\$ 408,037
Wages and Salaries Payable	91,281		91,281
Intergovernmental Payable	56,257		56,257
Due to other Funds	71,840		71,840
Deferred Revenues	142,827		142,827
Other Current Liabilities	111,137		111,137
Total Liabilities	\$ 881,379	\$ -	\$ 881,379
 Fund Balance			
Reserved for:			
Debt service		\$ 48,358	\$ 48,358
Unreserved reported in General Fund	\$ 5,926,065		5,926,065
Total Fund Balances	\$ 5,926,065	\$ 48,358	\$ 5,974,423
 Total Liabilities and Fund Balance	 \$ 6,807,444	 \$ 48,358	 \$ 6,855,802

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, 2011

Total Fund Balances - Governmental Funds	\$5,974,424
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.	546,495
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 \$30,805,432 and the accumulated depreciation was \$15,246,145. 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.	15,559,287
Current year net 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 2011 net capital outlays is an increase (decrease) to net assets.	212,596
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets.	(1,154,853)
Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets.	(4,236,680)
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 2011 bond proceeds is an increase (decrease) to net assets.	(72,317)
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 2011 debt principal payments is to increase (decrease) net assets.	615,301
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.	68,674
Net Assets of Governmental Activities	<u><u>\$17,512,927</u></u>

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

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2011

	General	Debt Service	Total
Revenues			
General Property Taxes	\$ 2,336,248	\$ 504,715	\$ 2,840,963
General Sales and Use Taxes	3,845,482		3,845,482
Hotel Occupancy Taxes	1,717,287		1,717,287
Other Taxes	574,173		574,173
Licenses and Permits	134,355		134,355
Charges for Services	15,359		15,359
Fines	170,077		170,077
Pavilion and Camping Fees	365,865		365,865
Rentals	35,970		35,970
Intergovernmental Revenue	351,661		351,661
Grants	36,171		36,171
Investment Earnings	33,423	1,537	34,960
Other Revenues	116,353		116,353
Total Revenues	<u>\$ 9,732,423</u>	<u>\$ 506,252</u>	<u>\$ 10,238,675</u>
Expenditures			
Administration	\$ 1,345,893	\$ 5	\$ 1,345,897
Tourism	1,583,589		1,583,589
Police	3,197,954		3,197,954
Fire	673,199		673,199
Emergency Management	53,595		53,595
Streets	1,695,086		1,695,086
Parks	1,126,721		1,126,721
Health	130,618		130,618
Debt Service			
Principal	60,146	555,155	615,301
Interest	6,965	75,603	82,568
Capital Outlays	372,443		372,443
Total Expenditures	<u>\$ 10,246,207</u>	<u>\$ 630,762</u>	<u>\$ 10,876,969</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (513,785)</u>	<u>\$ (124,510)</u>	<u>\$ (638,294)</u>
Other Financing Sources (Uses)			
Transfers in	\$ 1,057,200		\$ 1,057,200
Transfers (out)	(370,549)		(370,549)
Total Other Financing Sources (Uses)	<u>\$ 686,651</u>	<u>\$ -</u>	<u>\$ 686,651</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 172,866</u>	<u>\$ (124,510)</u>	<u>\$ 48,356</u>
Fund Balances - Beginning	<u>5,753,199</u>	<u>172,868</u>	<u>5,926,067</u>
Fund Balances - Ending	<u>\$ 5,926,065</u>	<u>\$ 48,358</u>	<u>\$ 5,974,423</u>

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

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2011

Total Net Change in Fund Balances - Governmental Funds \$48,356

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. 111,359

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	372,443
Capital Disposals	(159,847)
Depreciation Expense	(1,154,853)

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	0
Principal Payments	615,301

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	(72,317)
Accrued Interest Expense	2,828

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	10,909
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Change in Net Assets of Governmental Activities (\$225,821)

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

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2011

	Business-type Activities - Enterprise Funds			
	Electric	Water	Golf	Landfill
ASSETS				
Current assets:				
Cash and Cash Equivalents	\$ 872,966	\$ 2,017,787	\$ (36,941)	\$ 627,578
Investments	511,819	1,500,000		1,023,638
Internal Balances	3,020,000			
Intergovernmental Receivable				
Accounts Receivable (Net of Allowance)	1,433,416	525,872	1,064	121,013
Inventory	755,988	178,962	49,020	
Total Current Assets	<u>\$ 6,594,188</u>	<u>\$ 4,222,621</u>	<u>\$ 13,143</u>	<u>\$ 1,772,229</u>
Non-current Assets:				
Property and Equipment				
Land	\$ 100,117	\$ 474,542	\$ 305,399	\$ 209,549
Buildings	1,975,906	2,385,773	1,753,473	63,923
Improvements	7,842,656	23,559,340	1,259,600	4,144,708
Machinery and Equipment	1,349,013	1,731,157	959,836	2,742,763
Less: Accumulated Depreciation	(8,272,020)	(11,494,837)	(1,941,888)	(5,401,182)
Total Noncurrent Assets	<u>\$ 2,995,672</u>	<u>\$ 16,655,976</u>	<u>\$ 2,336,420</u>	<u>\$ 1,759,762</u>
Total Assets	<u>\$ 9,589,861</u>	<u>\$ 20,878,597</u>	<u>\$ 2,349,562</u>	<u>\$ 3,531,990</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 1,049,470	\$ 139,916	\$ 54,808	\$ 46,571
Accrued Payroll	16,505	18,847	13,358	12,358
Intergovernmental Payable	124,588		12,129	12,299
Accrued Interest Payable		27,867	778	
Internal Balances	75,061	301,741	2,751,552	9,726
Other Current Liabilities	285,130	140,302	17,621	9,702
Capital Leases Payable			99,679	
Bonds Payable-Current Maturity				
General Obligation Bonds		206,400		
Revenue Bonds		210,000		
Limited Tax Notes		1,010,000		
Total Current Liabilities	<u>\$ 1,550,754</u>	<u>\$ 2,055,071</u>	<u>\$ 2,949,925</u>	<u>\$ 90,656</u>
Noncurrent Liabilities:				
Bonds Payable-Non Current				
General Obligation Bonds		\$ 422,400		
Revenue Bonds		1,460,000		
Limited Tax Notes		3,300,000		
Unamortized Charge-Refunding Bond		(85,897)		
Unamortized Premiums (Discount) on Bonds		5,254	\$ 100	
Compensated Absences	\$ 137,349	105,513	59,393	\$ 93,695
Closure and Post Closure Liability				1,797,733
Total Noncurrent Liabilities	<u>\$ 137,349</u>	<u>\$ 5,207,270</u>	<u>\$ 59,493</u>	<u>\$ 1,891,428</u>
Total Liabilities	<u>\$ 1,688,103</u>	<u>\$ 7,262,341</u>	<u>\$ 3,009,419</u>	<u>\$ 1,982,083</u>
Net Assets				
Invested in Fixed Assets, Net of Related Debt	\$ 2,995,672	\$ 10,127,819	\$ 2,236,641	\$ 1,759,762
Restricted for Long-Term Debt		1,457,570	74	
Restricted for Capital Projects		219,588		
Unrestricted Net Assets	4,906,086	1,811,279	(2,896,571)	(209,855)
Total Net Assets	<u>\$ 7,901,758</u>	<u>\$ 13,616,256</u>	<u>\$ (659,856)</u>	<u>\$ 1,549,907</u>

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

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2011

EMS	Drainage	Enterprise Fund Totals	Governmental Activities Internal Service Fund
\$ 101,884	\$ 313,423	\$ 3,896,697	\$ 420,990
	204,728	3,240,185	255,909
36,800	4,342	3,061,142	14,744
217,853	6,268	2,305,485	4,852
		983,970	
<u>\$ 356,537</u>	<u>\$ 528,761</u>	<u>\$ 13,487,480</u>	<u>\$ 696,495</u>
		\$ 1,089,608	
\$ 368,666		6,547,741	
6,907	\$4,359,774	41,172,985	
853,108	2,330	7,638,207	
(691,903)	(1,819,301)	(29,621,130)	
<u>\$ 536,778</u>	<u>\$ 2,542,803</u>	<u>\$ 26,827,411</u>	<u>\$ -</u>
<u>\$ 893,315</u>	<u>\$ 3,071,565</u>	<u>\$ 40,314,891</u>	<u>\$ 696,495</u>
\$ 13,778		\$ 1,304,543	\$ 150,000
16,013		77,080	
34,251		183,267	
	\$ 2,771	31,416	
72,506		3,210,586	
		452,755	
161,815		261,494	
	280,253	486,653	
		210,000	
		1,010,000	
<u>\$ 298,362</u>	<u>\$ 283,024</u>	<u>\$ 7,227,792</u>	<u>\$ 150,000</u>
	\$ 864,165	\$ 1,286,565	
		1,460,000	
		3,300,000	
	(32,598)	(118,495)	
	5,967	11,322	
\$ 60,836		456,785	
		1,797,733	
<u>\$ 60,836</u>	<u>\$ 837,534</u>	<u>\$ 8,193,909</u>	<u>\$ -</u>
<u>\$ 359,197</u>	<u>\$ 1,120,558</u>	<u>\$ 15,421,701</u>	<u>\$ 150,000</u>
\$ 374,963	\$ 1,425,016	\$18,919,873	
	3,620	1,461,264	
		219,588	
159,155	522,371	4,292,465	\$ 546,495
<u>\$ 534,118</u>	<u>\$ 1,951,007</u>	<u>\$ 24,893,190</u>	<u>\$ 546,495</u>

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2011

	Business-type Activities - Proprietary Funds		
	Electric	Water	Golf
OPERATING REVENUES			
Electric Sales	\$ 11,419,707		
Water Sales		\$ 2,566,069	
Sewer Sales		1,446,380	
Golf Course Fees			\$ 1,094,425
Garbage Collection and Tipping Fees			
EMS Fees			
Drainage Utilities			
Licenses and Permits	8,384	9,996	
Property Taxes			
Rents and Royalties	29,876	3,153	
Other Revenue	197,599	210,341	3,788
Total Operating Revenues	<u>\$ 11,655,566</u>	<u>\$ 4,235,939</u>	<u>\$ 1,098,213</u>
OPERATING EXPENSES			
Salaries and Wages	\$ 833,898	\$ 853,337	\$ 539,628
Employee Benefits	191,012	226,184	175,349
Contracted Services	180,107	98,784	9,366
Other Operating Expenses	9,395,297	1,191,241	563,115
Amortization of Bond Costs		28,415	2,808
Depreciation	303,484	788,071	167,261
Total Operating Expenses	<u>\$ 10,903,798</u>	<u>\$ 3,186,032</u>	<u>\$ 1,457,526</u>
Operating Income (Loss)	\$ 751,768	\$ 1,049,907	\$ (359,313)
Nonoperating Revenues (Expenses):			
Investment Income	\$ 14,787	\$ 20,727	\$ 309
Loss on Disposal of Fixed Assets	(29,575)	(260,923)	(675)
Interest Expense		(239,800)	(2,052)
Transfers to Other Funds	(702,000)	(256,000)	
Transfers from Other Funds			
Total Nonoperating Revenues (Expenses)	<u>\$ (716,788)</u>	<u>\$ (735,996)</u>	<u>\$ (2,418)</u>
Changes in Net Assets	\$ 34,981	\$ 313,912	\$ (361,732)
Total Net Assets - Beginning	<u>7,866,777</u>	<u>13,302,344</u>	<u>(298,124)</u>
Total Net Assets - Ending	<u>\$ 7,901,758</u>	<u>\$ 13,616,256</u>	<u>\$ (659,856)</u>

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

				Governmental Activities
Landfill	EMS	Drainage	Totals	Internal Service Fund
			\$ 11,419,707	
			2,566,069	
			1,446,380	
			1,094,425	
\$ 1,648,913			1,648,913	
	\$ 854,219		854,219	
		\$ 74,011	74,011	
			18,380	
		242,126	242,126	
2,400			35,429	
(45)	380,610		792,293	\$ 1,085,637
<u>\$ 1,651,268</u>	<u>\$ 1,234,829</u>	<u>\$ 316,137</u>	<u>\$ 20,191,953</u>	<u>\$ 1,085,637</u>
\$ 547,681	\$ 887,169		\$ 3,661,713	
182,570	233,444		1,008,559	
5,454	3,627	\$ 525	297,862	
581,421	384,516	464	12,116,054	\$ 981,026
		5,962	37,185	
476,806	116,594	218,456	2,070,672	
<u>\$ 1,793,932</u>	<u>\$ 1,625,350</u>	<u>\$ 225,407</u>	<u>\$ 19,192,045</u>	<u>\$ 981,026</u>
\$ (142,664)	\$ (390,521)	\$ 90,731	\$ 999,908	\$ 104,612
\$ 25,594	\$ 491	\$ 6,071	\$ 67,979	\$ 6,748
(507)	(97)		(291,776)	
	(1,056)	(24,592)	(267,500)	
(99,200)			(1,057,200)	
	370,549		370,549	
<u>\$ (74,113)</u>	<u>\$ 369,887</u>	<u>\$ (18,520)</u>	<u>\$ (1,177,948)</u>	<u>\$ 6,748</u>
\$ (216,777)	\$ (20,634)	\$ 72,210	\$ (178,040)	\$ 111,359
1,766,684	554,752	1,878,797	25,071,230	435,136
<u>\$ 1,549,907</u>	<u>\$ 534,118</u>	<u>\$ 1,951,007</u>	<u>\$ 24,893,190</u>	<u>\$ 546,495</u>

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2011

	Enterprise Funds	
	Electric	Water
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 11,535,784	\$ 4,145,011
Cash Payments to Employees for Services	(1,021,321)	(1,077,451)
Cash Payments for Suppliers	(10,189,076)	(1,547,166)
Net Cash Provided (Used) by Operating Activities	\$ 325,387	\$ 1,520,394
Cash Flows from Non-capital Financing Activities		
Operating Transfers Out	\$ (702,000)	\$ (256,000)
Operating Transfers In		
Net Cash Provided (Used) by Non-capital Financing Activities	\$ (702,000)	\$ (256,000)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	\$ (113,225)	\$ (1,138,668)
Capital Lease Proceeds		
Principal Paid on Capital Debt		(1,463,097)
Interest Paid on Capital Debt		(239,800)
Deferred Loss on Early Retirement of Debt		
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (113,225)	\$ (2,841,565)
Cash Flows from Investing Activities		
Interest Received on Investments	\$ 14,786	\$ 20,723
Net Cash Provided by Investing Activities	\$ 14,786	\$ 20,723
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (475,052)	\$ (1,556,448)
Cash and Cash Equivalents, Beginning	1,859,837	5,074,234
Cash and Cash Equivalents, Ending	\$ 1,384,785	\$ 3,517,787

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

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ 1,097,161	\$ 1,658,788	\$ 1,287,794	\$ 316,290	\$ 20,040,828	\$ 1,081,405
(712,157)	(727,224)	(1,115,745)		(4,653,898)	
410,947	(493,281)	(374,626)	9,307	(12,183,895)	(989,410)
\$ 795,951	\$ 438,283	\$ (202,577)	\$ 325,597	\$ 3,203,035	\$ 91,995
	\$ (99,200)	\$ 370,549		\$ (1,057,200)	
				370,549	
\$ -	\$ (99,200)	\$ 370,549	\$ -	\$ 370,549	\$ -
\$ (122,118)	\$ (761,832)	\$ (181,914)		\$ (2,317,757)	
78,881		161,814		240,695	
(127,315)		(73,544)	\$ (277,652)	(1,941,608)	
(2,052)		(1,056)	(24,592)	(267,500)	
\$ (172,604)	\$ (761,832)	\$ (94,700)	\$ (302,244)	\$ (4,286,170)	\$ -
\$ 308	\$ 25,593	\$ 478	\$ 6,070	\$ 67,958	\$ 6,748
\$ 308	\$ 25,593	\$ 478	\$ 6,070	\$ 67,958	\$ 6,748
\$ 623,655	\$ (397,156)	\$ 73,750	\$ 29,423	\$ (1,701,828)	\$ 98,743
(660,596)	2,048,372	28,134	488,728	8,838,709	578,156
\$ (36,941)	\$ 1,651,216	\$ 101,884	\$ 518,151	\$ 7,136,882	\$ 676,899

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2011

	Enterprise Funds	
	Electric	Water
<u>Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	\$ 751,768	\$ 1,049,907
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	303,484	788,071
Amortization		28,415
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables	(119,782)	(90,928)
Decrease (Increase) in Due from Other Funds	(722,309)	310
Decrease (Increase) in Due from Other Governments		
Decrease (Increase) in Inventories	(28,334)	(9,176)
Increase (Decrease) in Accounts Payable	119,647	(233,263)
Increase (Decrease) in Wages Payable	3,589	2,070
Increase (Decrease) in Interest Payable		(5,297)
Increase (Decrease) in Due to Other Funds	10,359	(98)
Increase (Decrease) in Due to Other Governments	16,003	
Increase (Decrease) in Compensated Absences Payable	(9,899)	(12,192)
Increase (Decrease) in Landfill Closure Liability		
Increase (Decrease) in Other Current Liabilities	861	2,575
Net Cash Provided by (Used For) Operating Activities	\$ 325,387	\$ 1,520,394

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

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ (359,313)	\$ (142,664)	\$ (390,521)	\$ 90,731	\$ 999,908	\$ 104,612
167,261	476,806	116,594	218,456	2,070,672	
2,808			5,962	37,185	
(1,064)	7,520	52,965	153	(151,136)	(4,232)
737		745	11,388	(709,129)	(8,100)
250,000				250,000	
(9,714)				(47,224)	
(14,745)	(19,025)	4,118		(143,268)	
2,820	3,027	4,868		16,374	
(1,138)		(1,848)	(347)	(8,630)	
750,916	(8,942)	11,014	(746)	762,503	(285)
1,775	94	(7,382)		10,490	
5,392	16,583	6,870		6,754	
	105,184			105,184	
216	(300)			3,352	
<u>\$ 795,951</u>	<u>\$ 438,283</u>	<u>\$ (202,577)</u>	<u>\$ 325,597</u>	<u>\$ 3,203,035</u>	<u>\$ 91,995</u>

City of Fredericksburg, Texas
Fiduciary Funds
Statement of Net Assets
September 30, 2011

	Fireman's Relief Fund	Market Square Trust	Total Fiduciary Funds
ASSETS			
Cash and Cash Equivalents	\$ 13,276	\$ 352,657	\$ 365,933
Total Assets	13,276	352,657	365,933
 LIABILITIES			
Accounts Payable	-	1,221	1,221
Total Liabilities	-	1,221	1,221
 NET ASSETS			
Restricted	13,276	351,436	364,712
Total Net Assets	\$ 13,276	\$ 352,657	\$ 365,933

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

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Discretely Presented Component Unit

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

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

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

B. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or indirectly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City has the following major governmental fund:

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund types:

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

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

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

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

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

(continued)

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

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There were no balances that were considered “advanced to/from other funds” at September 30, 2011. All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

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

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital Assets (Continued)

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

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

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

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

5. Compensated Absences

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

6. Long-term Obligations

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Fund Equity

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

8. Net assets

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

9. Use of Estimates

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

10. Reclassifications

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$68,674 difference are as follows:

Deferred Revenues	\$	65,846
Accrued Interest Expense		<u>2,828</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>68,674</u>

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

The governmental fund statement of revenue, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$10,909 difference are as follows:

Reclass delinquent property taxes collected in current year	\$	<u>10,909</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>10,909</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2011, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 448,215	30
Portfolio weighted average maturity (days)	\$ 448,215	30

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

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, the City had cash deposits of \$12,911,167. The total fair market value of pledge securities held as collateral amounted to \$15,275,897. 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, 2011, were rated as follows:

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

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

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

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

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

	Government Funds			Enterprise Funds				Totals
	General	Electric	Water	Golf	Landfill	EMS	Drainage	
Taxes	\$507,320							\$507,320
Due from Other Governments	744,046							744,046
Customer Accounts	63,662	\$1,471,704	\$521,145	\$1,064	\$121,475	\$254,658	\$6,258	2,439,966
Notes	105,000							105,000
Interest	16,874	210	10,948		419		84	28,535
Gross Receivables	1,436,902	1,471,914	532,093	1,064	121,894	254,658	6,342	3,824,867
Less: Allowance for Uncollectibles	(9,100)	(38,498)	(6,221)		(881)	(36,805)	(74)	(91,579)
Net Total Receivables	\$1,427,802	\$1,433,416	\$525,872	\$1,064	\$121,013	\$217,853	\$6,268	\$3,733,288

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

General Fund – Deferred Revenues

Fines Receivable	\$	52,624
Taxes Receivable – Delinquent		<u>90,203</u>
Total Deferred Revenues	\$	<u>142,827</u>

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,965,385	\$ -	\$ -	\$ 2,965,385
Total assets not being depreciated	<u>2,965,385</u>	<u>-</u>	<u>-</u>	<u>2,965,385</u>
Capital assets, being depreciated:				
Buildings	7,327,731	10,627	126,489	7,211,869
Improvements other than buildings	13,230,290	206,703	104,862	13,332,131
Equipment	7,282,026	155,113	924,137	6,513,002
Total capital assets being depreciated	<u>27,840,047</u>	<u>372,443</u>	<u>1,155,488</u>	<u>27,057,002</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>15,246,145</u>	<u>1,154,860</u>	<u>995,647</u>	<u>15,405,358</u>
Total capital assets being depreciated, net	<u>12,593,902</u>	<u>(782,417)</u>	<u>159,841</u>	<u>11,651,644</u>
Governmental activities capital assets, net	\$ <u>15,559,287</u>	\$ <u>(782,417)</u>	\$ <u>159,841</u>	\$ <u>14,617,029</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,089,608	-	-	\$ 1,089,608
Total assets not being depreciated	<u>1,089,608</u>	<u>-</u>	<u>-</u>	<u>1,089,608</u>
Capital assets, being depreciated:				
Buildings	6,608,362	-	\$ 60,621	6,547,741
Improvements other than buildings	40,117,344	\$ 1,952,813	897,172	41,172,985
Equipment	8,704,409	364,946	1,431,148	7,638,207
Total capital assets being depreciated	<u>55,430,115</u>	<u>2,317,759</u>	<u>2,388,941</u>	<u>55,358,933</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>29,647,629</u>	<u>2,070,672</u>	<u>2,097,171</u>	<u>29,621,130</u>
Total capital assets being depreciated, net	<u>25,782,486</u>	<u>247,087</u>	<u>291,770</u>	<u>25,737,803</u>
Business-type activities capital assets, net	<u>26,872,094</u>	<u>247,087</u>	<u>291,770</u>	<u>26,827,411</u>
Total City Net Capital Assets	\$ <u>42,431,381</u>	\$ <u>(535,330)</u>	\$ <u>451,611</u>	\$ <u>41,444,440</u>

(continued)

44 DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities:		
Administrative	\$	144,407
Police		132,657
Fire		87,595
Streets		494,400
Parks		286,002
Health		10
Emergency Management		9,782
		<hr/>
Total depreciation expense – governmental activities	\$	<u>1,154,860</u>
Business-type activities:		
Electric	\$	303,484
Water and Sewer		788,071
Golf		167,261
Landfill		476,806
EMS		116,594
Drainage Utilities		218,456
		<hr/>
Total depreciation expense – business-type activities	\$	<u>2,070,672</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

General Fund	DUE TO	DUE FROM
Electric		
Electric – In Lieu of Taxes		\$ 73,900
Water – In Lieu of Taxes		30,200
Landfill – In Lieu of Taxes		8,400
EMS	\$ 36,800	71,051
Tourism	5,428	
Drainage	4,342	
Emergency Management	2,175	6,334
Debt Service	9,052	
Hospitalization Insurance	7,709	
Electric Fund		
General Fund		
General Fund – In Lieu of Taxes	73,900	
Water		270,000
Golf		2,750,000
Hospitalization Insurance	1,161	
Water & Sewer Fund		
General Fund – In Lieu of Taxes	30,200	
Electric	270,000	
Drainage		
Hospitalization Insurance	1,541	
Golf Fund		
Electric	2,750,000	
Drainage		
Debt Service		
Hospitalization	1,552	
Landfill		
General Fund – In Lieu of Taxes	8,400	
Electric		
Hospitalization Insurance	1,326	
EMS		
General Fund	71,051	36,800
Hospitalization Insurance	1,455	
Tourism		
General Fund		5,428
Drainage		
General Fund		4,342
Water & Sewer		
Emergency Management		
General Fund	6,334	2,175
Debt Service		
General Fund		9,052
Hospitalization Insurance		
General Fund		7,709
Electric		1,161
Water & Sewer		1,541
Golf		1,552
Landfill		1,326
EMS		1,455
Payroll Clearing		
General Fund		
Hospitalization Insurance		
Total Due To/Due From	\$ 3,282,426	\$ 3,282,426

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

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

The balance of \$2,750,000 due to the Electric Fund from the Golf Course Fund resulted from an internal loan issued in conjunction with the City's pooled cash accounts. This amount is expected to be repaid.

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

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Electric	\$ 702,000	
Water & Sewer	256,000	
Landfill	99,200	
EMS		\$ 370,549
Electric Fund		
General Fund		702,000
Water Fund		
General Fund		256,000
Landfill		
General Fund		99,200
EMS		
General Fund	370,549	
Total Transfers	<u>\$ 1,427,749</u>	<u>\$ 1,427,749</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

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

In the year ended September 30, 2011, 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	\$ 702,000
Water and Sewer	256,000
Landfill	<u>99,200</u>
	<u>\$ 1,057,200</u>

Capital Leases

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

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2012	\$106,594	\$106,104
2013	67,111	84,457
2014	<u>0</u>	<u>84,481</u>
Total minimum lease payments	173,705	275,042
Less: amount representing interest	<u>(8,145)</u>	<u>(13,549)</u>
Present value of minimum lease payments	<u>\$165,560</u>	<u>\$261,493</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 3,566,937	\$ -	\$ 555,155	\$ 3,011,782	\$ 368,348
Total bonds payable	3,556,937	-	555,155	3,011,782	368,348
Capitalized leases	225,716	-	60,146	165,570	100,866
Compensated absences	428,946	72,317	-	501,263	-
Total governmental Activities	\$ 4,221,599	\$ 72,317	\$ 615,301	\$ 3,678,615	\$ 469,214
Business-type activities					
General obligation bonds:					
General obligation bonds	\$ 2,433,064	-	\$ 659,846	\$ 1,773,218	\$ 486,652
Less: discount on bonds	(27,083)	-	(5,792)	(21,291)	-
Less: premium on bonds	12,737	-	1,415	11,322	-
Less: deferred amount on refundings	(47,887)	-	(17,685)	(30,202)	-
Total bonds payable	2,370,831	-	637,784	1,733,047	486,652
Revenue Bonds and Notes					
Revenue bonds	1,875,000	-	205,000	1,670,000	210,000
Less: Discount on Bonds	(46,484)	-	(6,212)	(40,273)	-
Limited tax notes	5,275,000	-	965,000	4,310,000	1,010,000
Less: Discount on Bonds	(35,640)	-	(8,910)	(26,730)	-
Total revenue bonds & notes	7,067,876	-	1,154,878	5,912,997	1,220,000
Capitalized leases	132,561	\$ 240,696	111,763	261,494	100,518
Compensated absences	450,032	6,753	-	456,785	-
Total business-type Activities	\$ 10,021,300	\$ 247,449	\$ 1,904,425	\$ 8,364,323	\$ 1,807,170
Long-term liabilities	\$ 14,242,899	\$ 319,766	\$ 2,519,726	\$ 12,042,938	\$ 2,276,384

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

Governmental activities long-term liabilities at September 30, 2011, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Bonds	\$ 3,604,164	1.00%-3.00%	<u>\$ 3,011,782</u>

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

Business-type Activities long-term liabilities at September 30, 2011, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2003 Revenue Bonds	\$ 2,975,000	1.61% to 4.40%	\$ 1,670,000
2008 Tax Notes	6,200,000	3.340%	4,310,000
2010 General Obligation Bonds	2,465,836	1.00% to 3.00%	1,773,218
			<u>\$ 7,753,218</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2011, are as follows:

September 30,	Principal	General Obligation Bonds Interest	Total
2012	\$ 368,347	\$ 70,051	\$ 438,398
2013	368,348	66,367	434,715
2014	381,348	59,001	440,349
2015	359,681	51,374	411,055
2016	368,348	44,180	412,528
2017-2019	1,165,710	70,593	1,236,303
	<u>\$ 3,011,782</u>	<u>\$ 361,566</u>	<u>\$ 3,373,348</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2011, are as follows:

September 30,	Principal	General Obligation Bonds, Certificates of Obligation and Revenue Bonds Interest	Total
2012	\$ 1,706,653	\$ 224,343	\$ 1,930,996
2013	1,771,652	176,828	1,948,480
2014	1,828,652	122,038	1,950,690
2015	1,435,319	65,178	1,500,497
2016	301,652	35,000	336,652
2017-2019	709,291	34,264	743,555
	<u>\$ 7,753,219</u>	<u>\$ 657,651</u>	<u>\$ 8,410,870</u>

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

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

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Plan Description (Continued)

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

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

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

Contributions

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actual valuation date		<u>12/31/10</u>		<u>12/31/09</u>
Actuarial value of assets	\$	23,536,342	\$	15,969,366
Actuarial accrued liability		22,216,989		17,716,270
Percentage funded		105.9%		90.1%
Unfunded (over-funded)				
actuarial accrued liability (UAAL)		(1,319,353)		1,746,904
Annual covered payroll		7,392,160		6,934,236
UAAL as a percentage of covered payroll		(17.8)%		25.2%
Net pension obligation				
(NPO) at the beginning of period				
Annual Pension Cost:				
Annual required contribution (ARC)		625,375		751,667
Contributions made		625,375		751,667
Increase in NPO		-		-
NPO at the end of period		-		-

Actuarial Assumptions

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

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

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

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

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

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

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

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund (Continued)

Plan Description (Continued)

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

Risk Management

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2011.

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)

REQUIRED SUPPLEMENTARY INFORMATION

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2011

	Budgeted Amounts		GAAP Basis Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Revenues				
General Property Taxes	\$ 2,295,000	\$ 2,295,000	\$ 2,336,248	\$ 41,248
General Sales and Use Taxes	3,600,000	3,600,000	3,845,482	245,482
Hotel Occupancy Taxes	1,650,000	1,650,000	1,717,287	67,287
Other Taxes	585,000	585,000	574,173	(10,827)
Licenses and Permits	120,600	120,600	134,355	13,755
Charges for Services	9,800	9,800	15,359	5,559
Fines	120,500	120,500	170,077	49,577
Pavillion and Camping Fees	298,000	298,000	365,865	67,865
Rentals	33,400	33,400	35,970	2,570
Intergovernmental Revenue	354,500	354,500	351,661	(2,839)
Grants	15,000	15,000	36,171	21,171
Investment Earnings	31,000	31,000	33,423	2,423
Other Revenues	95,400	95,400	116,353	20,953
Total Revenues	\$ 9,208,200	\$ 9,208,200	\$ 9,732,423	\$ 524,223
Expenditures				
Administration	\$ 1,321,600	\$ 1,321,600	\$ 1,345,893	\$ (24,293)
Tourism	1,650,000	1,650,000	1,583,589	66,411
Police	3,261,400	3,261,400	3,197,954	63,446
Fire	680,700	680,700	673,199	7,501
Emergency Management	57,100	57,100	53,595	3,505
Streets	1,644,700	1,644,700	1,695,086	(50,386)
Parks	995,500	995,500	1,126,721	(131,221)
Health	137,300	137,300	130,618	6,682
Debt Service				
Principal	60,200	60,200	60,146	54
Interest	7,000	7,000	6,965	35
Capital Outlays	1,111,500	1,111,500	372,443	739,057
Total Expenditures	\$ 10,927,000	\$ 10,927,000	\$ 10,246,207	\$ 680,793
Excess of Revenues Over (Under) Expenditures	\$ (1,718,800)	\$ (1,718,800)	\$ (513,785)	\$ 1,205,015
Other Financing Sources (Uses)				
Transfers in	\$ 1,111,100	\$ 1,111,100	\$ 1,057,200	\$ (53,900)
Transfers (out)	464,600	464,600	370,549	94,051
Total Other Financing Sources (Uses)	\$ 646,500	\$ 646,500	\$ 686,651	\$ 40,151
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,072,300)	\$ (1,072,300)	\$ 172,866	\$ 1,245,166
Fund Balances - Beginning	4,793,331	4,793,331	5,753,199	959,868
Fund Balances - Ending	<u>\$ 3,721,031</u>	<u>\$ 3,721,031</u>	<u>\$ 5,926,065</u>	<u>\$ 2,205,034</u>

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