

**CITY OF FREDERICKSBURG**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2012**

CITY OF FREDERICKSBURG, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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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, 2012, 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, 2012, 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*

*January 16, 2013*

## 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, 2012.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2012, by \$43,144,336 (net assets). Of this amount, \$9,340,959 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$738,218.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,273,331. Approximately 71 percent of the total amount, \$7,264,603 is unreserved fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2012, unreserved fund balance for the General Fund was \$7,264,603 or 65 percent of the current year's total General Fund expenditures of \$11,193,725.

### 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 26 – 49 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 \$43,144,336 as of September 30, 2012, compared to \$42,406,117 as of September 30, 2011.

### CITY OF FREDERICKSBURG’S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 12,041,980	\$ 7,521,602	\$ 12,895,524	\$ 13,487,479	\$ 24,937,504	\$ 21,009,081
Capital assets	14,094,144	14,617,029	28,276,251	26,827,411	42,370,395	41,444,440
Total assets	<u>26,136,124</u>	<u>22,138,631</u>	<u>41,171,775</u>	<u>40,314,890</u>	<u>67,307,899</u>	<u>62,453,521</u>
Current liabilities	983,735	947,088	7,708,368	5,259,644	8,692,103	6,206,732
Noncurrent liabilities	<u>6,630,969</u>	<u>3,678,616</u>	<u>8,840,491</u>	<u>10,162,056</u>	<u>15,471,460</u>	<u>13,840,672</u>
Total liabilities	<u>7,614,704</u>	<u>4,625,704</u>	<u>16,548,859</u>	<u>15,421,700</u>	<u>24,163,563</u>	<u>20,047,404</u>
Net Assets:						
Invested in capital assets:						
Net of related debt	7,463,176	10,938,413	21,842,070	18,919,873	29,305,246	29,858,286
Restricted for Long Term Debt	-	39,307	945,034	1,461,264	945,034	1,500,571
Restricted for Capital Projects	3,110,439	-	442,658	219,588	3,553,097	219,588
Unrestricted	<u>7,947,805</u>	<u>6,535,207</u>	<u>1,393,154</u>	<u>4,292,465</u>	<u>9,340,959</u>	<u>10,827,672</u>
Total net assets	<u>\$ 18,521,420</u>	<u>\$ 17,512,927</u>	<u>\$ 24,622,916</u>	<u>\$ 24,893,190</u>	<u>\$ 43,144,336</u>	<u>\$ 42,406,117</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 \$9,340,959 may be used to meet the government’s ongoing obligations to citizens and creditors.

**City of Fredericksburg**  
**Statement of Activities**  
**For Fiscal Years 2012 and 2011**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 932,271	\$ 753,743	\$ 18,607,476	\$ 19,154,381	\$ 19,539,747	\$ 19,908,124
Operating Grants and Contributions	482,346	399,963	-	-	482,346	399,963
General Revenues:						
Property Taxes	2,911,293	2,851,872	298,523	242,126	3,209,816	3,093,998
Sales Taxes	4,168,494	3,845,482	-	-	4,168,494	3,845,482
Hotel Occupancy Taxes	1,858,036	1,717,287	-	-	1,858,036	1,717,287
Other Taxes	562,194	574,173	-	-	562,194	574,173
Miscellaneous Revenue	67,394	72,104	1,068,606	795,445	1,136,000	867,549
Investments Earnings	15,507	34,960	28,129	67,979	43,636	102,939
<b>Total Revenues</b>	<b>\$ 10,997,535</b>	<b>\$ 10,249,584</b>	<b>\$ 20,002,734</b>	<b>\$ 20,259,931</b>	<b>\$ 31,000,269</b>	<b>\$ 30,509,515</b>
<b>Expenses</b>						
Administrative	\$ 3,595,870	\$ 3,153,060	-	-	\$ 3,595,870	\$ 3,153,060
Police	3,362,889	3,312,811	-	-	3,362,889	3,312,811
Fire	667,675	759,383	-	-	667,675	759,383
Streets	2,253,233	2,173,501	-	-	2,253,233	2,173,501
Parks	1,389,077	1,411,051	-	-	1,389,077	1,411,051
Health	131,047	129,024	-	-	131,047	129,024
Food and Wine Festival	149,702	-	-	-	149,702	-
Emergency Management	99,738	63,377	-	-	99,738	63,377
Electric	-	-	\$ 10,853,613	\$ 10,903,798	10,853,613	10,903,798
Water and Sewer	-	-	3,150,958	3,425,832	3,150,958	3,425,832
Golf	-	-	1,415,747	1,459,578	1,415,747	1,459,578
Landfill	-	-	1,854,977	1,793,932	1,854,977	1,793,932
EMS	-	-	1,660,042	1,626,406	1,660,042	1,626,406
Drainage Utilities	-	-	254,319	249,998	254,319	249,998
<b>Total Expenses</b>	<b>\$ 11,649,231</b>	<b>\$ 11,002,207</b>	<b>\$ 19,189,657</b>	<b>\$ 19,459,544</b>	<b>\$ 30,838,888</b>	<b>\$ 30,461,751</b>
<b>Increase (decrease) in Net Assets Before Transfers</b>	<b>\$ (651,696)</b>	<b>\$ (752,623)</b>	<b>\$ 813,077</b>	<b>\$ 800,387</b>	<b>\$ 161,381</b>	<b>\$ 47,764</b>
Gain (Loss) on Retirement of Assets	160,083	(159,849)	65,317	(291,776)	225,400	(451,625)
Transfers	1,148,668	686,651	(1,148,668)	(686,651)	-	-
<b>Change in Net Assets</b>	<b>\$ 657,055</b>	<b>\$ (225,821)</b>	<b>\$ (270,274)</b>	<b>\$ (178,040)</b>	<b>\$ 386,781</b>	<b>\$ (403,861)</b>
Net Assets, Beginning	\$ 17,512,927	\$ 17,738,748	\$ 24,893,190	\$ 25,071,230	\$ 42,406,117	\$ 42,809,978
Prior Period Adjustment	351,438	-	-	-	351,438	-
Net Assets, Beginning	\$ 17,864,365	\$ 17,738,748	\$ 24,893,190	\$ 25,071,230	\$ 42,757,555	\$ 42,809,978
<b>Net Assets, Ending</b>	<b>\$ 18,521,420</b>	<b>\$ 17,512,927</b>	<b>\$ 24,622,916</b>	<b>\$ 24,893,190</b>	<b>\$ 43,144,336</b>	<b>\$ 42,406,117</b>

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

As a whole, the government's net assets increased by \$386,781 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 \$10,273,331. Approximately 71 percent of this total amount, \$7,264,603 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 71 percent of the total governmental fund balance. The total fund balance of the General Fund was unreserved and amounted to \$7,264,603.

The fund balance of the City's General Fund increased by \$1,338,538 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 \$1,391,411. Net assets of the City's Enterprise Funds decreased by \$270,274 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, 2012, amounts to \$42,370,396 (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:

• Design Fees for Street Improvements	\$70,000
• Design Fees for Swimming Pools	145,000
• Park Playgrounds	95,000
• Electric Meters	340,000
• Electric System Improvements	80,000
• Water Meters	315,000
• Water System Improvement	535,000
• Golf Carts & Mowing Equipment	300,000
• Golf Course Renovation	1,923,000
• Landfill Equipment	60,000
• EMS Equipment	94,000
• Drainage Improvements	<u>105,000</u>
	<u>\$4,062,000</u>

Additional information on the City's capital assets can be found on pages 37 – 38 of this report.

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$11,915,000. 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 42 – 44 of this report.

## PROPERTY TAXES

### General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2012, the adopted property tax rate increased from \$.2365 to \$.2444 per \$100 of assessed valuation.

### Tax Rate, Levy and Collection History

Fiscal Year Ended September 30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2012	0.2444	0.1917	0.0527	3,162,656	92.50%	99.07%
2011	0.2365	0.1794	0.0571	3,059,692	93.74%	99.56%
2010	0.2319	0.1413	0.0906	3,050,545	91.78%	99.65%
2009	0.2350	0.1608	0.0742	3,002,027	92.39%	99.76%
2008	0.2414	0.1606	0.0808	2,760,539	91.76%	99.82%
2007	0.2566	0.1636	0.0930	2,574,997	92.48%	99.86%
2006	0.2596	0.1557	0.1039	2,353,435	93.16%	99.90%
2005	0.2820	0.1681	0.1139	2,314,321	92.15%	99.95%
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%	99.88%
2001	0.2651	0.2063	0.0588	1,453,310	91.38%	99.90%

**City of Fredericksburg**  
**Budget Comparison**  
**For Fiscal Years 2013 and 2012**

	2012-2013 <u>Budget</u>	2011-2012 <u>Budget</u>	Increase <u>(Decrease)</u>	Increase <u>(Decrease)</u>
<b>Revenues</b>				
General Fund	\$ 11,913,700	\$ 11,062,100	\$ 851,600	7.70%
Electric	11,980,000	11,789,000	191,000	1.62%
Water & Sewer	4,497,200	4,381,600	115,600	2.64%
Golf	2,148,300	669,000	1,479,300	221.12%
Landfill	1,798,100	1,832,400	(34,300)	-1.87%
EMS	1,657,300	1,647,000	10,300	0.63%
Drainage	380,400	377,900	2,500	0.66%
Emergency Management	112,200	98,400	13,800	14.02%
Debt Service	647,000	400,500	246,500	61.55%
Internal Service Fund	<u>1,159,800</u>	<u>1,159,400</u>	<u>400</u>	<u>0.03%</u>
<b>Total Revenues</b>	<b>\$ 36,294,000</b>	<b>\$ 33,417,300</b>	<b>\$ 2,876,700</b>	<b>8.61%</b>
<b>Expenditures</b>				
<b>General Fund</b>				
Administrative	\$ 4,589,400	\$ 3,615,500	\$ 973,900	26.94%
Police	3,547,500	3,429,100	118,400	3.45%
Fire	720,800	761,700	(40,900)	-5.37%
Street	2,975,700	3,058,100	(82,400)	-2.69%
Park	1,290,000	1,160,700	129,300	11.14%
Development Services	324,400	-	324,400	
Health	143,400	137,800	5,600	4.06%
Food and Wine Festival	<u>140,000</u>	<u>-</u>	<u>140,000</u>	
	<b>\$ 13,731,200</b>	<b>\$ 12,162,900</b>	<b>\$ 1,568,300</b>	<b>12.89%</b>
Electric	\$ 11,979,900	\$ 11,645,700	\$ 334,200	2.87%
Water & Sewer	4,746,700	3,993,600	753,100	18.86%
Golf	1,494,800	1,124,500	370,300	32.93%
Landfill	1,779,900	1,531,200	248,700	16.24%
EMS	1,657,200	1,646,900	10,300	0.63%
Drainage	761,100	448,600	312,500	69.66%
Emergency Management	112,100	98,300	13,800	14.04%
Debt Service	646,600	438,500	208,100	47.46%
Internal Service Fund	<u>1,137,400</u>	<u>992,100</u>	<u>145,300</u>	<u>14.65%</u>
<b>Total Expenditures</b>	<b>\$ 38,046,900</b>	<b>\$ 34,082,300</b>	<b>\$ 3,964,600</b>	<b>11.63%</b>
<b>Budgeted Revenues in Excess (Deficiency) of Expenditures</b>	<b><u>\$ (1,752,900)</u></b>	<b><u>\$ (665,000)</u></b>	<b><u>\$ (1,087,900)</u></b>	

## **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, 2012**

	Primary Government			Component Unit Convention & Visitors Bureau
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 6,553,424	\$ 3,102,660	\$ 9,656,084	\$ 236,969
Investments - Current	3,730,000	1,800,000	5,530,000	
Tax Receivables (Net of Allowance)	510,811		510,811	
Internal Balances	245,142	4,831,811	5,076,953	
Intergovernmental Receivable	841,979		841,979	
Due from Others	160,624	2,116,026	2,276,650	15
Inventory		1,045,027	1,045,027	
Property and Equipment, Net of Depreciation				
Land	2,954,743	1,068,323	4,023,066	
Buildings	7,211,869	6,561,721	13,773,590	
Improvements	13,656,732	44,090,973	57,747,705	
Machinery & Equipment	6,766,993	7,761,686	14,528,679	82,119
Less: Accumulated Depreciation	(16,496,192)	(31,206,452)	(47,702,644)	(53,900)
Total Assets	<u>\$ 26,136,124</u>	<u>\$ 41,171,775</u>	<u>\$ 67,307,899</u>	<u>\$ 265,203</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 481,279	\$ 1,768,845	\$ 2,250,124	\$ 6,278
Accrued Payroll	202,276	181,364	383,640	5,265
Intergovernmental Payable	80,754	195,971	276,725	
Accrued Interest Payable	23,670	18,647	42,317	
Internal Balances	5,861	5,071,092	5,076,953	
Deferred Revenues	70,164		70,164	
Other Current Liabilities	119,732	472,449	592,181	
Noncurrent Liabilities				
Due Within One Year	614,829	2,230,377	2,845,206	
Due in More Than One Year	6,016,140	6,610,114	12,626,254	
Total Liabilities	<u>\$ 7,614,704</u>	<u>\$ 16,548,859</u>	<u>\$ 24,163,563</u>	<u>\$ 11,543</u>
<b>NET ASSETS</b>				
Invested in Fixed Assets, Net of Related Debt	\$ 7,463,176	\$ 21,842,070	\$ 29,305,246	
Restricted for Long Term Debt		946,777	946,777	
Restricted for Capital Projects	3,110,439	442,658	3,553,097	
Unrestricted Net Assets	7,947,805	1,391,411	9,339,216	253,660
Total Net Assets	<u>\$ 18,521,420</u>	<u>\$ 24,622,916</u>	<u>\$ 43,144,336</u>	<u>\$ 253,660</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, 2012

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Administration	\$ 1,601,998	\$ 109,798	
Tourism	1,993,872		\$ 72,879
Police	3,362,889	175,275	
Fire	667,675		297,600
Emergency Management	99,738		55,611
Streets	2,253,233	10,619	
Parks	1,389,077	383,241	27,109
Health	131,047	75,891	29,147
Food and Wine Festival	149,702	177,448	
Total Governmental Activities	\$ 11,649,231	\$ 932,271	\$ 482,346
Business-type Activities:			
Electric	\$10,853,613	\$11,595,379	
Water	3,150,958	3,968,485	
Golf	1,415,747	342,445	
Landfill	1,854,977	1,685,270	
EMS	1,660,042	941,483	
Drainage	254,319	74,414	
Total Business-type Activities	\$ 19,189,657	\$ 18,607,476	\$ -
Total Government	\$ 30,838,888	\$ 19,539,747	\$ 482,346
Component Unit			
Fredericksburg Convention and Visitors Bureau	\$ 1,494,955		

General Revenues:
Taxes
Property Taxes
Sales Tax
Hotel Occupancy Tax
Other Taxes
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Gain (Loss) on Retirement of Fixed Assets
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

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

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit Convention & Visitors Bureau
\$ (1,492,200)		\$ (1,492,200)	
(1,920,993)		(1,920,993)	
(3,187,614)		(3,187,614)	
(370,075)		(370,075)	
(44,127)		(44,127)	
(2,242,614)		(2,242,614)	
(978,727)		(978,727)	
(26,008)		(26,008)	
27,746		27,746	
<u>\$ (10,234,614)</u>	<u>\$ -</u>	<u>\$ (10,234,614)</u>	
	\$ 741,767	\$ 741,767	
	817,527	817,527	
	(1,073,302)	(1,073,302)	
	(169,707)	(169,707)	
	(718,559)	(718,559)	
	(179,906)	(179,906)	
<u>\$ -</u>	<u>\$ (582,180)</u>	<u>\$ (582,180)</u>	
<u>\$ (10,234,614)</u>	<u>\$ (582,180)</u>	<u>\$ (10,816,795)</u>	
			<u>\$ (1,494,955)</u>
\$ 2,911,293	\$ 298,523	\$ 3,209,816	
4,168,494		4,168,494	
1,858,036		1,858,036	
562,194		562,194	
67,395	1,068,606	1,136,001	\$ 1,519,117
15,507	28,129	43,636	
1,148,668	(1,148,668)	0	
160,083	65,317	225,400	
<u>\$ 10,891,669</u>	<u>\$ 311,907</u>	<u>\$ 11,203,576</u>	<u>\$ 1,519,117</u>
\$ 657,055	\$ (270,274)	\$ 386,781	\$ 24,162
\$ 17,512,927	\$ 24,893,190	\$ 42,406,117	\$ 229,498
\$ 351,436		\$ 351,436	
<u>\$ 18,521,418</u>	<u>\$ 24,622,916</u>	<u>\$ 43,144,334</u>	<u>\$ 253,660</u>

City of Fredericksburg  
Governmental Funds  
Balance Sheet  
September 30, 2012

	General	Capital Project	Debt Service	Total
<b>Assets</b>				
Cash and Cash Equivalents	\$ 4,466,174	\$ 1,647,391	\$ (1,683)	\$ 6,111,882
Investments	1,930,000	1,400,000		3,330,000
Taxes Receivable (Net of Allowance for Uncollectible)	510,811			510,811
Receivable (Net of Allowance for Uncollectible)	160,505	92		160,597
Intergovernmental Receivables	841,979			841,979
Due from Other Funds	231,854		8,571	240,425
Total Assets	<u>\$ 8,141,323</u>	<u>\$ 3,047,483</u>	<u>\$ 6,888</u>	<u>\$ 11,195,693</u>
<b>Liabilities and Fund Balance</b>				
Accounts Payable	\$ 285,636	\$ 45,643		\$ 331,279
Wages and Salaries Payable	202,276			202,276
Intergovernmental Payable	80,754			80,754
Due to other Funds	62,060			62,060
Deferred Revenues	126,262			126,262
Other Current Liabilities	119,732			119,732
Total Liabilities	<u>\$ 876,719</u>	<u>\$ 45,643</u>	<u>\$ -</u>	<u>\$ 922,362</u>
<b>Fund Balance</b>				
Reserved for:				
Debt service			6,888	6,888
Capital Improvements		3,001,840		3,001,840
Unreserved reported in General Fund	7,264,603			7,264,603
Total Fund Balances	<u>\$ 7,264,603</u>	<u>\$ 3,001,840</u>	<u>\$ 6,888</u>	<u>\$ 10,273,331</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 8,141,323</u>	<u>\$ 3,047,483</u>	<u>\$ 6,888</u>	<u>\$ 11,195,693</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, 2012

<b>Total Fund Balances - Governmental Funds</b>	<b>\$10,273,331</b>
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.	752,484
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 \$30,022,387 and the accumulated depreciation was \$15,405,358. 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.	14,617,029
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 2012 net capital outlays is an increase (decrease) to net assets.	570,402
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets.	(1,093,287)
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.	(3,678,616)
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 2012 bond proceeds is an increase (decrease) to net assets.	(3,486,325)
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 2012 debt principal payments is to increase (decrease) net assets.	533,972
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.	32,430
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$18,521,420</u></u></b>

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, 2012

	General	Capital Project	Debt Service	Total
<b>Revenues</b>				
General Property Taxes	\$ 2,524,193		\$ 396,849	\$ 2,921,042
General Sales and Use Taxes	4,168,494			4,168,494
Hotel Occupancy Taxes	1,858,036			1,858,036
Other Taxes	562,194			562,194
Licenses and Permits	150,824			150,824
Charges for Services	10,619			10,619
Fines	166,913			166,913
Pavilion and Camping Fees	356,921			356,921
Rentals	39,055			39,055
Intergovernmental Revenue	294,439			294,439
Grants	180,797			180,797
Investment Earnings	14,966	\$ 461	79	15,507
Other Revenues	282,444			282,444
Total Revenues	<u>\$ 10,609,895</u>	<u>\$ 461</u>	<u>\$ 396,928</u>	<u>\$ 11,007,284</u>
<b>Expenditures</b>				
Administration	\$ 1,384,587	\$ 41,885		\$ 1,426,472
Tourism	1,993,872			1,993,872
Police	3,298,126			3,298,126
Fire	601,453			601,453
Emergency Management	90,172			90,172
Streets	1,792,179			1,792,179
Parks	1,154,615			1,154,615
Health	134,837			134,837
Food and Wine Festival	149,702			149,702
Debt Service				
Principal	165,625		\$ 368,348	533,972
Interest	6,701		70,051	76,752
Capital Outlays	421,856	156,736		578,592
Total Expenditures	<u>\$ 11,193,725</u>	<u>\$ 198,621</u>	<u>\$ 438,399</u>	<u>\$ 11,830,745</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (583,830)</u>	<u>\$ (198,160)</u>	<u>\$ (41,471)</u>	<u>\$ (823,461)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Real and Personal Property	\$ 168,273			\$ 168,273
Transfers in	1,471,900			1,471,900
Transfers (out)	(323,232)			(323,232)
Proceeds from Issuance of Debt	253,991	\$ 3,200,000		3,453,991
Total Other Financing Sources (Uses)	<u>\$ 1,570,933</u>	<u>\$ 3,200,000</u>	<u>\$ -</u>	<u>\$ 4,770,933</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 987,103</u>	<u>\$ 3,001,840</u>	<u>\$ (41,471)</u>	<u>\$ 3,947,472</u>
Fund Balances - Beginning	5,926,065		48,358	5,974,423
Prior Period Adjustment	351,436			351,436
Fund Balances - Ending	<u>\$ 7,264,604</u>	<u>\$ 3,001,840</u>	<u>\$ 6,887</u>	<u>\$ 10,273,331</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, 2012

**Total Net Change in Fund Balances - Governmental Funds** \$3,947,472

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. 205,988

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	578,592
Capital Disposals	(8,190)
Depreciation Expense	(1,093,287)

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

Bond Proceeds	(3,453,991)
Principal Payments	533,972

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	(32,334)
Accrued Interest Expense	(11,418)

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	(9,749)
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**Change in Net Assets of Governmental Activities** \$657,055

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, 2012

	Business-type Activities - Enterprise Funds			
	Electric	Water	Golf	Landfill
<b>ASSETS</b>				
Current assets:				
Cash and Cash Equivalents	\$ 596,152	\$ 2,058,340	\$ (809,492)	\$ 487,837
Investments	200,000	1,100,000		500,000
Internal Balances	3,920,000		5,950	900,000
Accounts Receivable (Net of Allowance)	1,251,029	424,600		157,404
Inventory	826,357	164,893	53,776	
Total Current Assets	<u>\$ 6,793,539</u>	<u>\$ 3,747,832</u>	<u>\$ (749,766)</u>	<u>\$ 2,045,241</u>
Non-current Assets:				
Property and Equipment				
Land	\$ 89,475	\$ 463,900	\$ 305,399	\$ 209,549
Buildings	1,989,886	2,385,773	1,753,473	63,923
Improvements	7,946,665	24,389,509	3,183,720	4,144,708
Machinery and Equipment	1,349,013	1,753,629	903,758	2,804,763
Less: Accumulated Depreciation	(8,456,970)	(12,193,720)	(1,839,133)	(5,857,168)
Total Noncurrent Assets	<u>\$ 2,918,069</u>	<u>\$ 16,799,091</u>	<u>\$ 4,307,216</u>	<u>\$ 1,365,776</u>
Total Assets	<u>\$ 9,711,608</u>	<u>\$ 20,546,923</u>	<u>\$ 3,557,450</u>	<u>\$ 3,411,017</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	\$ 1,030,059	\$ 307,647	\$ 255,524	\$ 31,375
Accrued Payroll	36,653	43,212	33,448	29,904
Intergovernmental Payable	130,700		2,656	14,597
Accrued Interest Payable		15,396	832	
Internal Balances	94,394	315,451	4,556,208	17,257
Other Current Liabilities	314,075	142,176	5,897	10,300
Capital Leases Payable			325,504	
Bonds Payable-Current Maturity				
General Obligation Bonds		456,200		
Limited Tax Notes		1,055,000		
Total Current Liabilities	<u>\$ 1,605,881</u>	<u>\$ 2,335,082</u>	<u>\$ 5,180,068</u>	<u>\$ 103,434</u>
Noncurrent Liabilities:				
Bonds Payable-Non Current				
General Obligation Bonds		1,451,200		
Limited Tax Notes		2,245,000		
Unamortized Charge-Refunding Bond		(55,038)		
Unamortized Premiums (Discount) on Bonds		4,597		
Compensated Absences	138,131	101,900	53,722	85,857
Closure and Post Closure Liability				1,963,880
Total Noncurrent Liabilities	<u>\$ 138,131</u>	<u>\$ 3,747,660</u>	<u>\$ 53,722</u>	<u>\$ 2,049,737</u>
Total Liabilities	<u>\$ 1,744,012</u>	<u>\$ 6,082,742</u>	<u>\$ 5,233,790</u>	<u>\$ 2,153,171</u>
<b>Net Assets</b>				
Invested in Fixed Assets, Net of Related Debt	\$ 2,918,069	\$ 11,642,131	\$ 3,981,712	\$ 1,365,776
Restricted for Long Term Debt		946,777		
Restricted for Capital Projects		442,658		
Unrestricted Net Assets	5,049,527	1,432,615	(5,658,052)	(107,929)
Total Net Assets	<u>\$ 7,967,596</u>	<u>\$ 14,464,181</u>	<u>\$ (1,676,340)</u>	<u>\$ 1,257,847</u>

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

EMS	Drainage	Enterprise Fund Totals	Governmental Activities Internal Service Fund
\$ 198,815	\$ 571,008	\$ 3,102,660	\$ 441,542
		1,800,000	400,000
	5,861	4,831,811	60,916
276,451	6,542	2,116,026	26
		1,045,027	
<u>\$ 475,266</u>	<u>\$ 583,411</u>	<u>\$ 12,895,523</u>	<u>\$ 902,484</u>
		\$ 1,068,323	
\$ 368,666		6,561,721	
6,907	\$ 4,419,463	44,090,973	
948,194	2,330	7,761,686	
(820,213)	(2,039,248)	(31,206,452)	
<u>\$ 503,553</u>	<u>\$ 2,382,546</u>	<u>\$ 28,276,251</u>	<u>\$ -</u>
\$ 978,819	\$ 2,965,957	\$ 41,171,774	\$ 902,484
\$ 96,548	\$ 47,692	\$ 1,768,845	\$ 150,000
38,147		181,364	
48,018		195,971	
	2,420	18,647	
87,782		5,071,092	
		472,448	
108,220		433,724	
	285,453	741,653	
		1,055,000	
<u>\$ 378,715</u>	<u>\$ 335,564</u>	<u>\$ 9,938,744</u>	<u>\$ 150,000</u>
	578,713	2,029,913	
		2,245,000	
	(25,890)	(80,928)	
	5,221	9,819	
62,820		442,431	
		1,963,880	
<u>\$ 62,820</u>	<u>\$ 558,044</u>	<u>\$ 6,610,114</u>	<u>\$ -</u>
<u>\$ 441,535</u>	<u>\$ 893,608</u>	<u>\$ 16,548,858</u>	<u>\$ 150,000</u>
\$ 395,333	\$ 1,539,049	\$ 21,842,070	
		946,777	
		442,658	
141,951	533,300	1,391,412	752,484
<u>\$ 537,284</u>	<u>\$ 2,072,349</u>	<u>\$ 24,622,917</u>	<u>\$ 752,484</u>

City of Fredericksburg, Texas  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2012

	Business-type Activities - Proprietary Funds		
	Electric	Water	Golf
<b>OPERATING REVENUES</b>			
Electric Sales	\$ 11,559,442		
Water Sales		\$ 2,405,828	
Sewer Sales		1,552,049	
Golf Course Fees			\$ 342,445
Garbage Collection and Tipping Fees			
EMS Fees			
Drainage Utilities			
Licenses and Permits	6,061	10,608	
Property Taxes			
Rents and Royalties	29,876	600	
Other Revenue	329,698	217,709	117,981
Total Operating Revenues	<u>\$ 11,925,078</u>	<u>\$ 4,186,795</u>	<u>\$ 460,426</u>
<b>OPERATING EXPENSES</b>			
Salaries and Wages	\$ 835,046	\$ 822,083	\$ 607,296
Employee Benefits	189,050	211,117	177,552
Contracted Services	113,141	59,925	6,207
Other Operating Expenses	9,416,453	1,114,037	430,901
Amortization of Bond Costs		55,203	(100)
Depreciation	299,923	698,883	191,493
Total Operating Expenses	<u>\$ 10,853,613</u>	<u>\$ 2,961,249</u>	<u>\$ 1,413,348</u>
Operating Income (Loss)	\$ 1,071,465	\$ 1,225,546	\$ (952,923)
Nonoperating Revenues (Expenses):			
Investment Income	\$ 7,662	\$ 8,257	\$ 67
Gain (Loss) on Disposal of Fixed Assets	(222,686)		(61,227)
Interest Expense		(189,710)	(2,399)
Transfers to Other Funds	(982,200)	(353,800)	
Transfers from Other Funds			
Gain (Loss) on Sale of Fixed Assets	191,598	157,631	
Total Nonoperating Revenues (Expenses)	<u>\$ (1,005,626)</u>	<u>\$ (377,622)</u>	<u>\$ (63,559)</u>
Changes in Net Assets	\$ 65,839	\$ 847,924	\$ (1,016,482)
Total Net Assets - Beginning	<u>7,901,758</u>	<u>13,616,256</u>	<u>(659,856)</u>
Total Net Assets - Ending	<u>\$ 7,967,597</u>	<u>\$ 14,464,180</u>	<u>\$ (1,676,338)</u>

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

Landfill	EMS	Drainage	Totals	Governmental Activities Internal Service Fund
			\$ 11,559,442	
			2,405,828	
			1,552,049	
			342,445	
\$ 1,682,845	\$ 941,483		1,682,845	
		\$ 74,414	941,483	
25			74,414	
			16,694	
2,400		298,523	298,523	
4,195	398,421	2	32,876	
<u>\$ 1,689,465</u>	<u>\$ 1,339,904</u>	<u>\$ 372,938</u>	<u>\$ 1,068,006</u>	<u>\$ 1,198,822</u>
			\$ 19,974,605	<u>\$ 1,198,822</u>
\$ 633,753	\$ 906,725		\$ 3,804,903	
165,787	218,309		961,815	
14,662	3,638	\$ 6,500	204,074	
584,790	399,876	98	11,946,155	\$ 995,779
		5,962	61,065	
455,985	128,310	219,947	1,994,542	
<u>\$ 1,854,977</u>	<u>\$ 1,656,857</u>	<u>\$ 232,507</u>	<u>\$ 18,972,552</u>	<u>\$ 995,779</u>
\$ (165,512)	\$ (316,953)	\$ 140,431	\$ 1,002,054	\$ 203,043
\$ 9,349	\$ 72	\$ 2,722	\$ 28,129	\$ 2,945
			(283,913)	
	(3,185)	(21,812)	(217,105)	
(135,900)			(1,471,900)	
	323,232		323,232	
			349,229	
<u>\$ (126,551)</u>	<u>\$ 320,120</u>	<u>\$ (19,089)</u>	<u>\$ (1,272,327)</u>	<u>\$ 2,945</u>
\$ (292,062)	\$ 3,167	\$ 121,341	\$ (270,274)	\$ 205,988
1,549,907	534,118	1,951,007	24,893,190	546,495
<u>\$ 1,257,845</u>	<u>\$ 537,285</u>	<u>\$ 2,072,348</u>	<u>\$ 24,622,916</u>	<u>\$ 752,483</u>

City of Fredericksburg, Texas  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended September 30, 2012

	Enterprise Funds	
	Electric	Water
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 12,107,465	\$ 4,288,066
Cash Payments to Employees for Services	(1,003,948)	(1,008,835)
Cash Payments for Suppliers	(10,464,203)	(992,661)
Net Cash Provided (Used) by Operating Activities	\$ 639,314	\$ 2,286,570
<b>Cash Flows from Non-capital Financing Activities</b>		
Operating Transfers Out	\$ (982,200)	\$ (353,800)
Operating Transfers In		
Net Cash Provided (Used) by Non-capital Financing Activities	\$ (982,200)	\$ (353,800)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of Capital Assets	\$ (456,019)	\$ (852,641)
Capital Lease Proceeds		
Bond Proceeds less Issuance Costs		1,460,000
Principal Paid on Capital Debt		(2,886,400)
Interest Paid on Capital Debt		(189,710)
Proceeds from the Sale of Capital Assets	202,610	168,277
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (253,409)	\$ (2,300,474)
<b>Cash Flows from Investing Activities</b>		
Interest Received on Investments	\$ 7,662	\$ 8,257
Net Cash Provided by Investing Activities	\$ 7,662	\$ 8,257
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (588,633)	\$ (359,447)
Cash and Cash Equivalents, Beginning	1,384,785	3,517,787
Cash and Cash Equivalents, Ending	\$ 796,152	\$ 3,158,340

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

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ 461,490	\$ 1,653,074	\$ 1,281,307	\$ 372,664	\$ 20,164,066	\$ 1,203,649
(764,758)	(781,994)	(1,102,900)		(4,662,435)	
1,530,742	(1,345,910)	(252,927)	39,225	(11,485,734)	(1,041,951)
\$ 1,227,474	\$ (474,830)	\$ (74,520)	\$ 411,889	\$ 4,015,897	\$ 161,698
	\$ (135,900)			\$ (1,471,900)	
		\$ 323,232		323,232	
\$ -	\$ (135,900)	\$ 323,232	\$ -	\$ (1,148,668)	\$ -
\$ (2,223,516)	\$ (62,000)	\$ (95,085)	\$ (59,690)	\$ (3,748,951)	
272,749				-	
(46,924)		(53,594)	\$ (280,253)	1,732,749	
(2,399)		(3,185)	(21,812)	(3,267,171)	
				(217,106)	
				370,887	
\$ (2,000,090)	\$ (62,000)	\$ (151,864)	\$ (361,755)	\$ (5,129,592)	\$ -
\$ 65	\$ 9,351	\$ 83	\$ 2,723	\$ 28,141	\$ 2,945
\$ 65	\$ 9,351	\$ 83	\$ 2,723	\$ 28,141	\$ 2,945
\$ (772,551)	\$ (663,379)	\$ 96,931	\$ 52,857	\$ (2,234,222)	\$ 164,643
(36,941)	1,651,216	101,884	518,151	7,136,882	676,899
\$ (809,492)	\$ 987,837	\$ 198,815	\$ 571,008	\$ 4,902,660	\$ 841,542

City of Fredericksburg, Texas  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
For the Year Ended September 30, 2012

	Enterprise Funds	
	Electric	Water
<u>Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	\$ 1,071,465	\$ 1,225,546
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	299,923	698,883
Amortization		55,203
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables	182,387	101,272
Decrease (Increase) in Due from Other Funds	(900,000)	-
Decrease (Increase) in Inventories	(70,369)	14,069
Increase (Decrease) in Accounts Payable	(19,411)	167,731
Increase (Decrease) in Wages Payable	20,148	24,365
Increase (Decrease) in Interest Payable		(12,471)
Increase (Decrease) in Due to Other Funds	19,333	13,710
Increase (Decrease) in Due to Other Governments	6,112	
Increase (Decrease) in Compensated Absences Payable	782	(3,613)
Increase (Decrease) in Landfill Closure Liability		
Increase (Decrease) in Other Current Liabilities	28,944	1,875
Net Cash Provided by (Used For) Operating Activities	\$ 639,314	\$ 2,286,570

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

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ (952,923)	\$ (165,512)	\$ (316,953)	\$ 140,431	\$ 1,002,054	\$ 203,043
191,493 (100)	455,985	128,310	219,947 5,962	1,994,541 61,065	
1,064 (5,950) (4,756)	(36,391) (900,000)	(58,598) 36,800	(274) (1,519)	189,460 (1,770,669) (61,056)	4,827 (46,172)
200,716 20,090 54	(15,196) 17,546	82,760 22,134	47,692 (350)	464,292 104,283 (12,767)	
1,804,656 (9,473) (5,671)	7,531 2,298 (7,838)	15,276 13,767 1,984	-	1,860,506 12,704 (14,356)	-
(11,726)	166,147 600			166,147 19,693	
<u>\$ 1,227,474</u>	<u>\$ (474,830)</u>	<u>\$ (74,520)</u>	<u>\$ 411,889</u>	<u>\$ 4,015,897</u>	<u>\$ 161,698</u>

# CITY OF FREDERICKSBURG, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

### 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.

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, 2012. 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 \$32,430 difference are as follows:

Deferred Revenues	\$	56,100
Accrued Interest Expense		<u>(23,670)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>32,430</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 \$(9,749) difference are as follows:

Reclass delinquent property taxes collected in current year	\$	<u>(9,749)</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>(9,749)</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, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 448,724	30
Portfolio weighted average maturity (days)	\$ 448,724	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, 2012, the City had cash deposits of \$14,732,209. The total fair market value of pledged securities held as collateral amounted to \$18,111,435. 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, 2012, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAA	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	Landfill	EMS	Drainage	
Taxes	\$518,311						\$518,311
Due from Other Governments	841,979						841,979
Customer Accounts	6,111	\$1,264,798	\$430,264	\$158,432	\$330,459	\$6,618	2,196,683
Notes	105,000						105,000
Interest	70	5	34	23	0	0	132
Gross Receivables	1,471,471	1,264,803	430,298	158,455	330,459	6,618	3,662,105
Less: Allowance for Uncollectibles	(9,086)	(13,773)	(5,698)	(1,051)	(54,008)	(76)	(83,692)
Net Total Receivables	\$1,462,385	\$1,251,030	\$424,600	\$157,404	\$276,451	\$6,542	\$3,578,413

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	\$	50,910
Taxes Receivable – Delinquent		<u>75,352</u>
Total Deferred Revenues	\$	<u>126,262</u>

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

##### Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

##### **Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,965,385	\$ -	\$ 10,642	\$ 2,954,743
Total assets not being depreciated	<u>2,965,385</u>	<u>-</u>	<u>10,642</u>	<u>2,954,743</u>
Capital assets, being depreciated:				
Buildings	7,211,869	-	-	7,211,869
Improvements other than buildings	13,332,131	324,601	-	13,656,732
Equipment	6,513,002	253,991	-	6,766,993
Total capital assets being depreciated	<u>27,057,002</u>	<u>578,592</u>	<u>-</u>	<u>27,635,594</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>15,405,358</u>	<u>1,093,286</u>	<u>2,452</u>	<u>16,496,192</u>
Total capital assets being depreciated, net	<u>11,651,644</u>	<u>(514,695)</u>	<u>(2,452)</u>	<u>11,139,402</u>
Governmental activities capital assets, net	\$ <u>14,617,029</u>	\$ <u>(514,695)</u>	\$ <u>8,190</u>	\$ <u>14,094,145</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,089,608	\$ -	\$ 21,285	\$ 1,068,323
Total assets not being depreciated	<u>1,089,608</u>	<u>-</u>	<u>21,285</u>	<u>1,068,323</u>
Capital assets, being depreciated:				
Buildings	6,547,741	13,980	-	6,561,721
Improvements other than buildings	41,172,985	3,256,017	338,030	44,090,973
Equipment	7,638,207	478,953	355,475	7,761,686
Total capital assets being depreciated	<u>55,358,933</u>	<u>3,748,951</u>	<u>693,504</u>	<u>58,414,379</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>29,621,130</u>	<u>1,994,542</u>	<u>409,220</u>	<u>31,206,451</u>
Total capital assets being depreciated, net	<u>25,737,803</u>	<u>3,748,951</u>	<u>284,284</u>	<u>27,207,928</u>
Business-type activities capital assets, net	<u>26,827,411</u>	<u>3,748,951</u>	<u>305,569</u>	<u>28,276,251</u>
<b>Total City Net Capital Assets</b>	\$ <u>41,444,440</u>	\$ <u>3,234,257</u>	\$ <u>313,759</u>	\$ <u>42,370,396</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	\$	135,430
Police		111,208
Fire		75,153
Streets		496,479
Parks		265,431
Health		20
Emergency Management		9,566
		<hr/>
Total depreciation expense – governmental activities	\$	<u>1,093,287</u>
Business-type activities:		
Electric	\$	299,923
Water and Sewer		698,883
Golf		191,493
Landfill		455,985
EMS		128,310
Drainage Utilities		219,948
		<hr/>
Total depreciation expense – business-type activities	\$	<u>1,994,542</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2012, is as follows:

	DUE TO	DUE FROM
<b>General Fund</b>		
Electric – In Lieu of Taxes		\$ 89,800
Water – In Lieu of Taxes		32,400
Landfill – In Lieu of Taxes		11,400
EMS		81,768
Tourism	\$ 5,428	
Drainage	5,861	
Emergency Management		6,860
Debt Service	8,571	
Hospitalization Insurance	30,754	
<b>Electric Fund</b>		
General Fund		
General Fund – In Lieu of Taxes	89,800	
Water		270,000
Golf		3,650,000
Hospitalization Insurance	4,594	
<b>Water &amp; Sewer Fund</b>		
General Fund – In Lieu of Taxes	32,400	
Electric	270,000	
Golf	5,950	
Hospitalization Insurance	7,101	
<b>Golf Fund</b>		
Electric	3,650,000	
Water		5,950
Landfill	900,000	
Hospitalization	6,208	
<b>Landfill</b>		
General Fund – In Lieu of Taxes	11,400	
Golf		900,000
Hospitalization Insurance	5,857	
<b>EMS</b>		
General Fund	81,768	
Hospitalization Insurance	6,014	
<b>Tourism</b>		
General Fund		5,428
<b>Drainage</b>		
General Fund		5,861
<b>Emergency Management</b>		
General Fund	6,860	
Police Forfeiture	4,198	
Hospitalization Insurance	388	
<b>Debt Service</b>		
General Fund		8,571
<b>Police Forfeiture</b>		
Emergency Management		4,198
<b>Hospitalization Insurance</b>		
General Fund		30,754
Electric		4,594
Water & Sewer		7,101
Golf		6,208
Landfill		5,857
EMS		6,014
Emergency Management		388
<b>Payroll Clearing</b>		
General Fund		
<b>Total Due To/Due From</b>	\$ 5,133,152	\$ 5,133,152

(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 funds advanced to establish working capital when the fund was first created. This amount is expected to be repaid.

The balance of \$3,650,000 due to the Electric Fund from the Golf Course Fund resulted from funds advanced to maintain working capital in the Golf Course Fund. This amount is expected to be repaid.

The balance of \$900,000 due to the Landfill Fund from the Golf Course Fund resulted from funds advanced to maintain working capital in the Golf Course Fund. 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>
<b>General Fund</b>		
Electric	\$ 982,200	
Water & Sewer	353,800	
Landfill	135,900	
EMS		\$ 323,232
<b>Electric Fund</b>		
General Fund		982,200
<b>Water Fund</b>		
General Fund		353,800
<b>Landfill</b>		
General Fund		135,900
<b>EMS</b>		
General Fund	323,232	
 Total Transfers	 \$ <u>1,795,132</u>	 \$ <u>1,795,132</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, 2012, 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	\$ 982,200
Water and Sewer	353,800
Landfill	<u>135,900</u>
	<u>\$ 1,471,900</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, 2012 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2013	\$ 132,844	\$ 135,179
2014	65,732	135,202
2015	65,732	50,721
2016	<u>        </u>	<u>141,721</u>
Total minimum lease payments	264,308	462,823
Less: amount representing interest	<u>(10,371)</u>	<u>(29,099)</u>
Present value of minimum lease payments	<u>\$ 253,937</u>	<u>\$ 433,724</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 3,011,782	\$ 3,200,000	\$ 368,348	\$ 5,843,435	\$ 488,347
Total bonds payable	3,011,782	3,200,000	368,348	5,843,435	488,347
Capitalized leases	165,570	253,991	165,625	253,937	126,482
Compensated absences	501,263	32,334	-	533,597	-
Total governmental Activities	\$ 3,678,615	\$ 3,486,326	\$ 533,972	\$ 6,630,968	\$ 614,829
<b>Business-type activities</b>					
General obligation bonds:					
General obligation bonds	\$ 1,773,218	\$ 1,485,000	\$ 486,653	\$ 2,771,565	\$ 741,652
Less: discount on bonds	(21,291)	(25,000)	(4,546)	(41,745)	-
Less: premium on bonds	11,322	-	1,503	9,819	-
Less: deferred amount on refundings	(30,202)	-	(8,839)	(21,363)	-
Total bonds payable	1,733,047	1,460,000	474,771	2,718,276	741,652
Revenue Bonds and Notes					
Revenue bonds	1,670,000	-	1,670,000	-	-
Less: Discount on Bonds	(40,273)	-	(40,273)	-	-
Limited tax notes	4,310,000	-	1,010,000	3,300,000	1,055,000
Less: Discount on Bonds	(26,730)	-	(8,910)	(17,820)	-
Total revenue bonds & notes	5,912,997	-	2,630,817	3,282,180	1,055,000
Capitalized leases	261,494	272,749	100,519	433,724	129,067
Compensated absences	456,785	-	14,355	442,430	-
Total business-type Activities	\$ 8,364,323	\$ 1,732,749	\$ 3,220,462	\$ 6,876,610	\$ 1,925,719
Long-term liabilities	\$ 12,042,938	\$ 5,219,075	\$ 3,754,434	\$ 13,507,578	\$ 2,540,548

(continued)

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

**Long-term Liabilities** (Continued)

Governmental activities long-term liabilities at September 30, 2012, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Refunding Bonds	\$ 3,604,164	1.00%-3.00%	\$ 2,643,435
2012 General Obligation Bonds	3,200,000	2.877%	<u>3,200,000</u>
			<u>\$ 5,843,435</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, 2012, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2008 Limited Tax Notes	\$ 6,200,000	3.340%	\$ 3,300,000
2010 General Obligation Refunding Bonds	2,465,836	1.00% to 3.00%	1,286,565
2012 General Obligation Refunding Bonds	1,485,000	.50% to 1.35%	1,485,000
			<u>\$ 6,071,565</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2012, are as follows:

September 30,	Principal	General Obligation Bonds Interest	Total
2013	\$ 488,347	\$ 156,964	\$ 645,311
2014	506,348	145,817	652,165
2015	484,681	134,594	619,275
2016	498,347	123,732	622,079
2017	512,015	110,711	622,726
2018-2032	<u>3,353,697</u>	<u>628,520</u>	<u>3,982,217</u>
	<u>\$ 5,843,435</u>	<u>\$ 1,300,338</u>	<u>\$ 7,143,773</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, 2012, are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>General Obligation Bonds and Limited Tax Notes Interest</u>	<u>Total</u>
2013	\$ 1,796,652	\$ 133,256	\$ 1,929,908
2014	1,843,652	85,889	1,929,541
2015	1,445,319	36,648	1,481,967
2016	301,653	14,276	315,929
2017	307,986	10,259	318,245
2018	314,985	5,360	320,345
2019	61,318	1,840	63,158
	<u>\$ 6,071,565</u>	<u>\$ 287,528</u>	<u>\$ 6,359,093</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:	<b>5%</b>
Matching Ratio (City to Employee):	<b>2 to 1</b>
A member is vested after	<b>5 years</b>

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>12/31/11</u>		<u>12/31/10</u>
Actuarial value of assets	\$	25,654,128	\$	23,536,342
Actuarial accrued liability		23,807,171		22,216,989
Percentage funded		107.8%		105.9%
Unfunded (over-funded)				
actuarial accrued liability (UAAL)		(1,846,957)		(1,319,353)
Annual covered payroll		7,803,528		7,392,160
UAAL as a percentage of covered payroll		(23.7)%		(17.8)%
Net pension obligation				
(NPO) at the beginning of period				
Annual Pension Cost:				
Annual required contribution (ARC)		653,154		625,375
Contributions made		653,154		625,375
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, 2012, there were 214 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, 2012, the Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,758
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,260
Active Participants (Vested and Nonvested)	<u>4,230</u>
	<u>9,248</u>

Senate Bill 411, 65<sup>th</sup> 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 79<sup>th</sup> 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 10<sup>th</sup> 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, 65<sup>th</sup> 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, 2012.

##### Contingent Liabilities

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

(continued)

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

##### Closure and Postclosure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and postclosure care costs has a balance of \$1,963,880 as of September 30, 2012, which is based on 83.27% usage of current open cells and 27.14% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2058. The estimated total current cost of the landfill closure and postclosure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

##### Governmental Accounting Standards Board Statement #54

Beginning with fiscal year ended September 30, 2011, the Statement of Net Assets and Statement of Activities are presented in accordance with Governmental Accounting Standards Board Statement #54.

##### Prior Period Adjustment

A prior period adjustment was necessary to reflect the termination of the Market Square Trust. The adjustment restates the beginning of year fund balance in the General Fund by transferring the \$351,436 of remaining assets from the Market Square Trust.

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, 2012

	Budgeted Amounts		GAAP Basis Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>Revenues</b>				
General Property Taxes	\$ 2,454,000	\$ 2,454,000	\$ 2,524,193	\$ 70,193
General Sales and Use Taxes	3,700,000	3,700,000	4,168,494	468,494
Hotel Occupancy Taxes	1,820,000	1,820,000	1,858,036	38,036
Other Taxes	570,000	570,000	562,194	(7,806)
Licenses and Permits	126,100	126,100	150,824	24,724
Charges for Services	12,200	12,200	10,619	(1,581)
Fines	130,600	130,600	166,913	36,313
Pavilion and Camping Fees	324,000	324,000	356,921	32,921
Rentals	34,400	34,400	39,055	4,655
Intergovernmental Revenue	371,200	371,200	294,439	(76,761)
Grants	16,000	16,000	180,797	164,797
Investment Earnings	31,100	31,100	14,966	(16,134)
Other Revenues	89,600	89,600	282,444	192,844
<b>Total Revenues</b>	<b>\$ 9,679,200</b>	<b>\$ 9,679,200</b>	<b>\$ 10,609,895</b>	<b>\$ 930,695</b>
<b>Expenditures</b>				
Administration	\$ 1,356,500	\$ 1,356,500	\$ 1,384,587	\$ (28,087)
Tourism	1,820,000	1,820,000	1,993,872	(173,872)
Police	3,366,700	3,366,700	3,298,126	68,574
Fire	694,500	694,500	601,453	93,047
Emergency Management	98,300	98,300	90,172	8,128
Streets	1,892,300	1,892,300	1,792,179	100,121
Parks	1,120,700	1,120,700	1,154,615	(33,915)
Health	137,800	137,800	134,837	2,963
Food and Wine Festival	-	-	149,702	(149,702)
Debt Service				
Principal	100,900	100,900	165,625	(64,725)
Interest	5,800	5,800	6,701	(901)
Capital Outlays	1,229,700	1,229,700	421,856	807,844
<b>Total Expenditures</b>	<b>\$ 11,823,200</b>	<b>\$ 11,823,200</b>	<b>\$ 11,193,725</b>	<b>\$ 629,475</b>
Excess of Revenues Over (Under) Expenditures	\$ (2,144,000)	\$ (2,144,000)	\$ (583,830)	\$ 1,560,170
<b>Other Financing Sources (Uses)</b>				
Sale of Real and Personal Property	-	-	\$ 168,273	\$ 168,273
Transfers in	\$ 1,481,300	\$ 1,481,300	1,471,900	(9,400)
Transfers (out)	(438,000)	(438,000)	(323,232)	114,768
Proceeds from Issuance of Debt	-	-	253,991	253,991
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,043,300</b>	<b>\$ 1,043,300</b>	<b>\$ 1,570,933</b>	<b>\$ 527,633</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,100,700)	\$ (1,100,700)	\$ 987,103	\$ 2,087,803
Fund Balances - Beginning	5,926,065	5,926,065	5,926,065	-
Prior Period Adjustment			351,436	351,436
<b>Fund Balances - Ending</b>	<b>\$ 4,825,365</b>	<b>\$ 4,825,365</b>	<b>\$ 7,264,604</b>	<b>\$ 2,439,239</b>

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