

CITY OF STAFFORD

STAFFORD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

SEPTEMBER 30, 2009

KENNEMER, MASTERS AND LUNSFORD, LLC

CERTIFIED PUBLIC ACCOUNTANTS

8 WEST WAY COURT

LAKE JACKSON, TEXAS 77566

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CITY OF STAFFORD

Stafford, Texas

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For the Year Ended September 30, 2009*

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Stafford, Texas

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INTRODUCTORY SECTION

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CITY OF STAFFORD, TEXAS
PRINCIPAL OFFICIALS

Elected Officials

Leonard Scarcella	Mayor
Ken Mathew	Mayor Pro-Tem
Felecia Evans-Smith	Council Member
Wen Guerra	Council Member
Jeff Smith	Council Member
Robert Sorbet	Council Member
Cecil Willis	Council Member

Appointed Officials

Karen Austin	Director of Finance
Bonnie Baiamonte	City Secretary
Gene Bane	Director of Permits and Nuisance Abatement
Carolyn Entricht	Director of Television Production
Bonny Krahn	Chief of Police and Director of Emergency Services
Nicole Nguyen	Director of Municipal Court
Susan Ricks	Contract Administrator Stafford Centre and Director of Civic Center and Recreation
Lawrence Vaccaro, Jr.	Director of Municipal Services and Public Works

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FINANCIAL SECTION

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KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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Lake Jackson, Texas 77566
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Houston, Texas 77077
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Independent Auditors' Report

February 22, 2010

To The Honorable Mayor and
Members of City Council
City of Stafford
Stafford, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Stafford, Texas (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Stafford Municipal School District, a discretely presented component unit of the City, of which, reflect 83% of total assets and 89% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for that discretely presented component unit is based solely on the report of the other auditors.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the City of Stafford, Texas as of September 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

To The Honorable Mayor and
Members of City Council
February 22, 2010
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and Hotel Occupancy Tax Special Revenue Fund, and the Texas Municipal Retirement System Schedule of Funding Progress – Last Three Years on pages 9 through 17 and 58 through 60 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stafford's basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennemer, Masters & Kingford, LLC

CITY OF STAFFORD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2009

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

Financial Highlights

- The assets of the City of Stafford exceeded its liabilities at the close of the most recent fiscal year by \$ 72,407,458 (net assets). Of this amount, \$ 14,383,736 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- As of the close of the current fiscal year, the City of Stafford's governmental funds reported combined ending fund balances of \$ 23,124,794. 65.94% of this total amount, \$ 15,248,840 (unreserved fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 15,166,795 or 90.37% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Stafford's basic financial statements. The City's basic financial statements are comprised of 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 of 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 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 the future fiscal periods (e.g. municipal court fines).

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 costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and parks and recreation. The City currently does not have any *business-type activities*.

CITY OF STAFFORD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2009*

The government-wide financial statements can be [found on pages 19 through 21](#) 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 of 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances, provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven (11) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Hotel Occupancy Tax Special Revenue Fund, Debt Service and Capital Projects funds; all of which are considered to be major funds. Data for the other seven (7) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary Funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the City has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The City uses the *internal service fund* to report activities for its self-funded health insurance program. The basic proprietary fund financial statements can be [found on pages 26 through 28](#) of this report.

CITY OF STAFFORD, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2009

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 29 through 56 of this report](#).

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and Hotel Occupancy Tax Special Revenue Fund, and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found [on pages 58 through 60 of this report](#).

The other supplemental information is presented following the required supplementary information. These combining and individual statements and schedules can be [found on pages 63 through 77](#) of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Stafford, assets exceeded liabilities by \$ 72,407,458 as of September 30, 2009.

The largest portion of the City's net assets of \$ 50,381,029 (69.5%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding plus any unspent bond proceeds. The City uses capital assets to provide service 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 resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF STAFFORD'S NET ASSETS

	Governmental Activities		Change	
	September 30,		Amount	Percent
	2009	2008		
Current and other assets	\$ 24,555,963	\$ 24,476,131	\$ 79,832	0.33%
Capital assets	<u>55,144,057</u>	<u>55,240,594</u>	<u>(96,537)</u>	<u>(0.17%)</u>
Total assets	<u>79,700,020</u>	<u>79,716,725</u>	<u>(16,705)</u>	<u>(0.02%)</u>
Current and other liabilities	1,819,535	1,285,059	534,476	41.59%
Long-term liabilities	<u>5,473,027</u>	<u>6,029,235</u>	<u>(556,208)</u>	<u>(9.23%)</u>
Total liabilities	<u>7,292,562</u>	<u>7,314,294</u>	<u>(21,732)</u>	<u>(0.30%)</u>

(continued)

CITY OF STAFFORD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2009*

	Governmental Activities		Change	
	September 30,		Amount	Percent
	2009	2008		
Net Assets:				
Invested in capital assets, net of related debt	\$ 50,381,029	\$ 49,850,797	\$ 530,232	1.06%
Restricted	7,642,693	7,583,563	59,130	0.78%
Unrestricted	<u>14,383,736</u>	<u>14,968,071</u>	<u>(584,335)</u>	<u>(3.90%)</u>
Total net assets	<u>\$ 72,407,458</u>	<u>\$ 72,402,431</u>	<u>\$ 5,027</u>	<u>0.01%</u>

An additional portion of the City's net assets of \$ 7,642,693 (10.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 14,383,736 (19.9%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2009, the City is able to report positive balances in all three categories of net assets.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the years ended September 30, 2009 and 2008. Governmental activities increased the City's net assets by \$ 5,027 compared to a increase of \$ 1,062,747 for the year ended September 30, 2008.

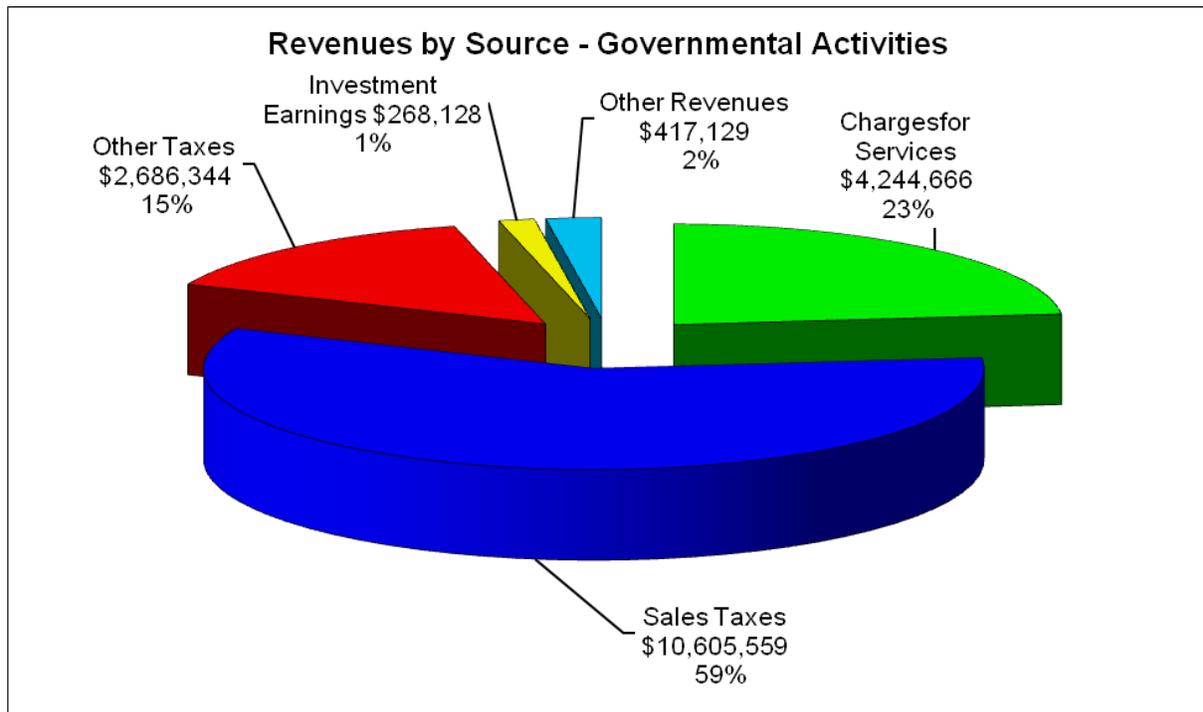
CITY OF STAFFORD'S CHANGES IN NET ASSETS

	Governmental Activities		Change	
	September 30,		Amount	Percent
	2009	2008		
Revenues:				
Program Revenues:				
Charges for services	\$ 4,244,666	\$ 3,709,687	\$ 534,979	14.42%
Capital grants and contributions	130,256	52,429	77,827	148.44%
General Revenues:				
Sales tax	10,605,559	11,073,329	(467,770)	(4.22%)
Other taxes	2,686,344	2,909,169	(222,825)	(7.66%)
Unrestricted investment earnings	268,128	582,892	(314,764)	(54.00%)
Miscellaneous	<u>286,873</u>	<u>14,545</u>	<u>272,328</u>	<u>1872.31%</u>
Total revenues	<u>18,221,826</u>	<u>18,342,051</u>	<u>(120,225)</u>	<u>(.66%)</u>

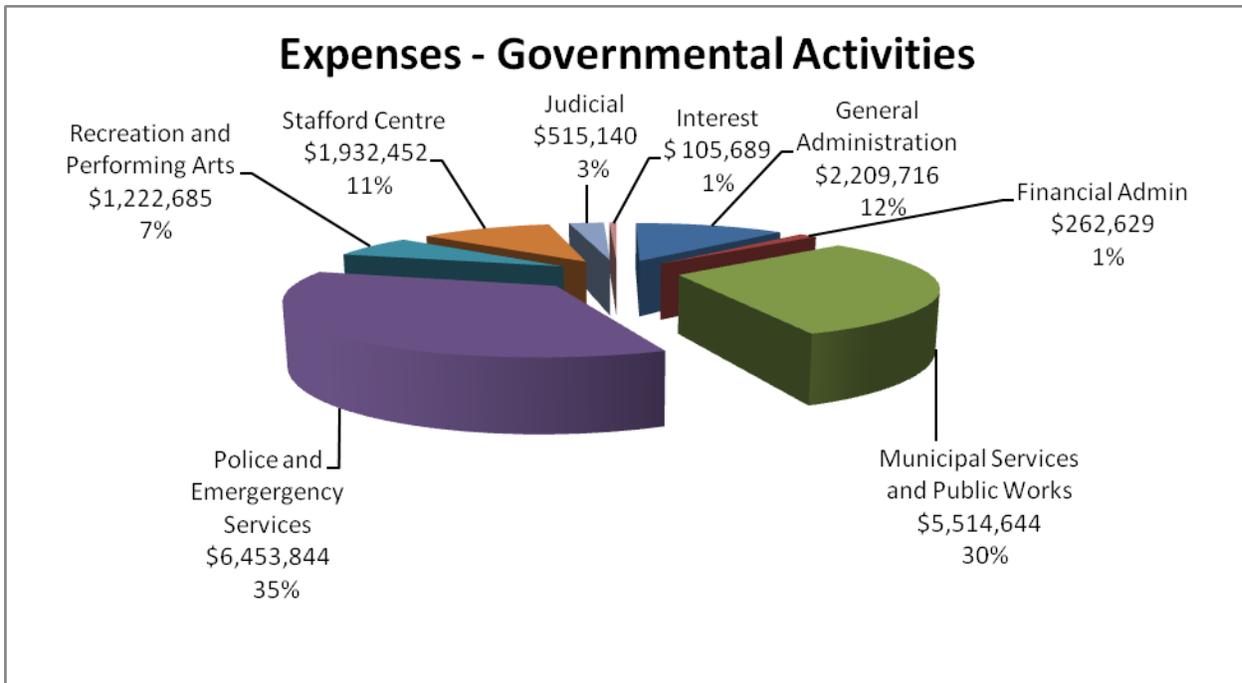
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CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

	Governmental Activities		Change	
	September 30, 2009	2008	Amount	Percent
Expenses:				
General administration	\$ 2,209,716	\$ 1,943,245	\$ 266,471	13.71%
Financial administration	262,629	248,215	14,414	5.81%
Municipal services and public works	5,514,644	5,279,825	234,819	4.45%
Police and emergency services	6,453,844	6,328,537	125,307	1.98%
Recreation and performing arts	1,222,685	1,054,640	168,045	15.93%
Stafford Centre	1,932,452	1,819,299	113,153	6.22%
Judicial	515,140	454,527	60,613	13.34%
Interest on long-term debt	<u>105,689</u>	<u>151,016</u>	<u>(45,327)</u>	<u>(30.01%)</u>
Total expenses	<u>18,216,799</u>	<u>17,279,304</u>	<u>937,495</u>	<u>5.43%</u>
Increase (decrease) in net assets	5,027	1,062,747	(1,057,720)	(99.53%)
Net assets - October 1,	<u>72,402,431</u>	<u>71,339,684</u>	<u>1,062,747</u>	<u>1.49%</u>
Net assets - September 30,	<u>\$ 72,407,458</u>	<u>\$ 72,402,431</u>	<u>\$ 5,027</u>	<u>0.01%</u>



CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009



Financial Analysis of the City's Funds

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

Governmental funds. The focus of the City of Stafford'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 of Stafford's governmental funds reported combined ending fund balances of \$ 23,124,794. 65.94% of this total amount (\$ 15,248,840) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for inventory (\$ 25,018), 2) encumbrances (\$ 241,666) 3) debt service (\$ 1,045,205), 4) municipal services (\$ 181,146), 5) capital projects (\$ 3,162,022), 6) tourism (\$ 3,127,732), 7) municipal court security (\$ 8,074) and 8) municipal court technology (\$ 85,091).

CITY OF STAFFORD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2009*

The General Fund balance decreased by \$ 208,149; Hotel Occupancy Tax Fund balance increased by \$ 322,613; Debt Service Fund balance decreased by \$ 175,160 and the Capital Projects Funds decreased by \$ 23,763. The non-major governmental funds fund balance decreased by \$ 58,282.

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

Unrestricted deficit net assets at September 30, 2009 amounted to \$ 568,463 compared to a deficit net asset balance of \$ 268,975 at September 30, 2008. Total net assets decreased \$ 317,488 primarily due to actual health claims exceeding anticipated amounts.

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in a \$ 646,869 decrease in appropriations; and can be summarized as follows:

- Decreases from the original appropriations budget were the result of a reduction in capital outlay expenditures primarily due to the timing required on certain capital projects.

Capital Assets

The City of Stafford's investment in capital assets for its governmental activities as of September 30, 2009, amounts to \$ 55,144,057 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure.

Capital Assets at Year-end Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	September 30,	
	<u>2009</u>	<u>2008</u>
Land	\$ 4,948,125	\$ 4,948,125
Construction in progress	3,528,224	1,609,272
Buildings	24,935,672	25,727,4316
Improvements other than buildings	913,223	819,392
Machinery and equipment	4,683,558	4,757,399
Infrastructure	<u>16,135,255</u>	<u>17,378,970</u>
Net capital assets	<u>\$ 55,144,057</u>	<u>\$ 55,240,594</u>

CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2009

Additional information on the City of Stafford's capital assets can be found in Note 6 on pages 44 through 45 of this report.

Debt Administration

At the end of the current fiscal year, the City of Stafford had a total long-term debt liability of \$ 5,473,027. Of this amount, \$ 1,025,000 of general obligation bonded debt, \$ 535,000 of certificates of obligations, \$ 476,791 of capital leases, \$ 2,726,237 of excess sales tax liability, \$ 701,516 of compensated absences, and \$ 8,483 of accrued interest (component of long-term debt) backed by the full faith and credit of the City.

Outstanding Long-Term Debt at Year End

	<u>Governmental Activities</u>	
	September 30,	
	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 1,025,000	\$ 1,205,000
Certificates of obligation	535,000	785,000
Capital leases payable	476,791	618,365
Sales tax obligation	2,726,237	2,781,431
Compensated absences - sick leave	701,516	628,471
Components of Long-Term Debt:		
Accrued interest payable	<u>8,483</u>	<u>10,967</u>
 Total	 <u>\$ 5,473,027</u>	 <u>\$ 6,029,234</u>

The City continues to hold an "A2" rating from Moody's Investor Service and an "AA" rating from Standard and Poor's.

Additional information on the City of Stafford's long-term debt can be found in Note 7 on pages 46 through 49 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2009-10 Budget, General Fund revenues are budgeted to increase by 5% from the 2008-09 budget year due to a projected increase in sales and franchise tax revenues. Appropriations are budgeted to increase by 8% from the 2008-09 budget year due to street projects at Stafford/Staffordshire and Dulles Avenue.

In preparing the 2009-10 budget, management considered certain economic factors including:

- Increase in salary to all full time employees
- Sales tax realization
- Property valuations

CITY OF STAFFORD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2009*

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Stafford, 2610 South Main, Stafford, Texas, 77477.

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CITY OF STAFFORD

STATEMENT OF NET ASSETS

September 30, 2009

	Primary Government	Stafford Economic	Stafford Municipal
	Governmental Activities	Development	School District
Assets:			
Cash and cash equivalents	\$ 22,498,542	\$ 8,017,376	\$ 6,651,255
Receivables (Net of Allowance for Uncollectibles):			
Taxes	219,679	532,979	988,496
Due from other governments	1,598,937		61,516
Due from component units	15,177		
Other	162,682		
Accrued interest	26		
Prepaid expenditures	35,902		
Inventories	25,018		
Deferred expenses			41,326
Capital Assets:			
Land	4,948,125		657,500
Construction in progress	3,528,224		
Buildings (net)	24,935,672		31,888,338
Improvements other than buildings (net)	913,223		
Machinery and equipment (net)	4,683,558		1,686,733
Infrastructure (net)	16,135,255		
Total assets	79,700,020	8,550,355	41,975,164
Liabilities:			
Accounts payable and accrued expenses	1,577,561	12,377	1,196,548
Due to primary government			3,598
Deferred revenue	241,974	3,444	851,092
Long-term Liabilities:			
Due within one year	1,451,872	750,470	3,095,000
Due in more than one year	4,021,155	23,755,492	14,744,900
Total liabilities	7,292,562	24,521,783	19,891,138
Net Assets:			
Invested in capital assets, net of related debt	50,381,029		17,437,418
Restricted For:			
Debt service	1,036,722	89,261	1,482,328
Capital projects	3,203,927	153,500	
Tourism	3,127,732		
Other purposes	274,312		
Unrestricted	14,383,736	(16,214,189)	3,164,280
Total net assets	\$ 72,407,458	\$(15,971,428)	\$ 22,084,026

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grant and Contributions
Primary Government:			
Governmental Activities:			
General administration	\$ 2,209,716	\$ 6,614	\$
Finance administration	262,629	1,255	
Municipal services and public works	5,514,644	1,514,149	
Police and emergency services	6,453,844	1,141,750	
Recreation and performing arts	1,222,685	393,385	
Stafford Centre	1,932,452	1,136,266	
Judicial	515,140	51,247	
Interest on long-term debt	<u>105,689</u>		
Total governmental activities	<u>18,216,799</u>	<u>4,244,666</u>	<u>-0-</u>
Component Units:			
Stafford Economic Development Corporation	2,669,819		
Stafford Municipal School District	<u>33,554,306</u>	<u>640,505</u>	<u>4,072,514</u>
Total component units	<u>36,224,125</u>	<u>640,505</u>	<u>4,072,514</u>
Total	<u>\$ 54,440,924</u>	<u>\$ 4,885,171</u>	<u>\$ 4,072,514</u>
General Revenue:			
Taxes:			
Sales taxes			
Franchise			
Occupancy and other taxes			
Property taxes			
Unrestricted investment earnings			
Grants and contributions not restricted			
Miscellaneous			
Total general revenues and transfers			
Change in net assets			
Net assets – beginning			
Net assets – ending			

The notes to the financial statements are an integral part of this statement.

	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government Governmental Activities	Stafford Economic Corporation	Stafford Municipal School
\$	\$(2,203,102)		
	(261,374)		
130,256	(3,870,239)		
	(5,312,094)		
	(829,300)		
	(796,186)		
	(463,893)		
	<u>(105,689)</u>		
<u>130,256</u>	<u>(13,841,877)</u>		
		\$(2,669,819)	\$
			<u>(28,841,287)</u>
<u>-0-</u>	<u>-0-</u>	<u>(2,669,819)</u>	<u>(28,841,287)</u>
<u>\$ 130,256</u>	<u>(13,841,877)</u>	<u>(2,669,819)</u>	<u>(28,841,287)</u>
	10,605,559	3,513,235	
	1,550,785		
	1,135,559		
			24,911,428
	268,128	117,264	99,893
			3,533,018
	<u>286,873</u>		<u>93,270</u>
	<u>13,846,904</u>	<u>3,630,499</u>	<u>28,637,609</u>
	5,027	960,680	(203,678)
	<u>72,402,431</u>	<u>(16,832,108)</u>	<u>22,287,704</u>
<u>\$ 72,407,458</u>	<u>\$(15,971,428)</u>	<u>\$ 22,084,026</u>	

CITY OF STAFFORD
BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2009

	General Fund	Hotel Occupancy Tax	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and cash equivalents	\$ 14,944,519	\$ 3,088,173	\$ 1,045,205	\$ 3,162,832	\$ 236,432	\$ 22,477,161
Receivables (Net of Allowance for Uncollectibles):						
Taxes	108,000	69,774		41,905		219,679
Due from other governments	1,598,937					1,598,937
Due from component units	15,177					15,177
Accrued interest					26	26
Due from other funds	455,196				128,794	583,990
Inventory	<u>25,018</u>					<u>25,018</u>
Total assets	<u>\$ 17,146,847</u>	<u>\$ 3,157,947</u>	<u>\$ 1,045,205</u>	<u>\$ 3,204,737</u>	<u>\$ 365,252</u>	<u>\$ 24,919,988</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Accounts payable	\$ 1,134,712	\$	\$	\$	\$ 400	\$ 1,135,112
Accrued wages	207,888					207,888
Due to other funds	128,794	30,215		810	8,496	168,315
Deferred revenue	<u>241,974</u>			<u>41,905</u>		<u>283,879</u>
Total liabilities	<u>1,713,368</u>	<u>30,215</u>	<u>-0-</u>	<u>42,715</u>	<u>8,896</u>	<u>1,795,194</u>
<u>Fund Balance:</u>						
<u>Reserved For:</u>						
Inventory	25,018					25,018
Encumbrances	241,666					241,666
Debt service			1,045,205			1,045,205
Municipal services					181,146	181,146
Capital projects				3,162,022		3,162,022
Tourism		3,127,732				3,127,732
Municipal court security					8,074	8,074
Municipal court technology					85,091	85,091
<u>Unreserved:</u>						
<u>Designated:</u>						
Subsequent years expenditures					82,045	82,045
<u>Undesignated, Reported In:</u>						
General fund	<u>15,166,795</u>					<u>15,166,795</u>
Total fund balances	<u>15,433,479</u>	<u>3,127,732</u>	<u>1,045,205</u>	<u>3,162,022</u>	<u>356,356</u>	<u>23,124,794</u>
Total liabilities and fund balances	<u>\$ 17,146,847</u>	<u>\$ 3,157,947</u>	<u>\$ 1,045,205</u>	<u>\$ 3,204,737</u>	<u>\$ 365,252</u>	<u>\$ 24,919,988</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS

September 30, 2009

Total fund balances – governmental funds balance sheet	\$ 23,124,794
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 97,854,412 in assets less \$ 42,710,355 in accumulated depreciation.	55,144,057
Judicial accounts receivables net of related allowance for uncollectibles are unavailable to pay for current period expenditures and availability of funds are uncertain as to availability are not recorded in the funds. Judicial receivables (\$ 1,951,590 net of allowance for uncollectible accounts of \$ 1,795,398) of the general fund amounted to \$ 156,192.	156,192
Special assessment taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred special assessment tax revenues for the capital fund amounted to \$ 41,905.	41,905
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(586,463)
Payables for general obligation bonds principal are not reported in the funds.	(1,560,000)
Payables for capital lease principal are not reported in the funds.	(476,791)
Payables for excess sales tax principal are not reported in the funds.	(2,726,237)
Payables for accrued interest related to long-term liabilities are not reported in the funds.	(8,483)
Payables for compensated absences - sick leave liabilities are not reported in the funds.	(<u>701,516</u>)
Net assets of governmental activities – statement of net assets.	\$ <u><u>72,407,458</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2009

	General	Hotel Occupancy Tax	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 11,970,961	\$ 1,011,382	\$ 310,000	\$ 360	\$	\$ 13,292,703
Licenses and permits	389,542					389,542
Fines and forfeitures	804,689				42,485	847,174
Fees and charges for services	1,805,585					1,805,585
Interest	193,688	39,238	23,549	6,320	4,475	267,270
Intergovernmental	1,130,569				46,365	1,176,934
Miscellaneous	262,636		25		40,274	302,935
Total revenues	<u>16,557,670</u>	<u>1,050,620</u>	<u>333,574</u>	<u>6,680</u>	<u>133,599</u>	<u>18,082,143</u>
Expenditures:						
Current:						
General administration	2,072,577					2,072,577
Financial administration	256,844					256,844
Municipal services and public works	4,024,875			30,443	8,105	4,063,423
Police and emergency services	5,681,547				4,579	5,686,126
Recreation and performing arts	465,991	653,635				1,119,626
Stafford Centre	1,180,215					1,180,215
Judicial	410,555				60,871	471,426
Capital outlay	2,401,394	74,372			118,326	2,594,092
Debt Service:						
Principal retirement	259,215		430,000			689,215
Interest and fiscal charges	29,439		78,734			108,173
Total expenditures	<u>16,782,652</u>	<u>728,007</u>	<u>508,734</u>	<u>30,443</u>	<u>191,881</u>	<u>18,241,717</u>
Excess (deficiency) of revenues over expenditures	(224,982)	322,613	(175,160)	(23,763)	(58,282)	(159,574)
Other Financing Sources (Uses):						
Proceeds from the sale of capital assets	16,833					16,833
Total other financing sources (uses)	<u>16,833</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>16,833</u>
Net changes in fund balances	(208,149)	322,613	(175,160)	(23,763)	(58,282)	(142,741)
Fund balances - beginning	15,641,628	2,805,119	1,220,365	3,185,785	414,638	23,267,535
Fund balances - ending	<u>\$ 15,433,479</u>	<u>\$ 3,127,732</u>	<u>\$ 1,045,205</u>	<u>\$ 3,162,022</u>	<u>\$ 356,356</u>	<u>\$ 23,124,794</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Net change in fund balances – total governmental funds	\$(142,741)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net depreciation \$ 2,765,785 exceeded net capital outlay \$ 2,594,092 in the current period.	(171,693)
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 6,385.	6,385
Special assessments receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred special assessment tax revenues reported in the capital project funds amounted to \$ 800.	(800)
Governmental funds do not present revenues that are not available to pay current obligations but are reported in the statement of activities when earned. These amounts were for contributions of capital assets from the Stafford Economic Development Corporation.	130,256
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The net cost of assets disposed were \$ 55,100	(55,100)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net assets. The funds statements reported \$ 62,446 in excess sales tax.	(62,446)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. These amounts were for general obligation bonded debt of \$ 180,000; certificates of obligation of \$ 250,000, capital lease payments of \$ 141,574 and excess sales tax payments of \$ 117,641.	689,215
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These amounts were for the change in accrued interest on long-term debt of \$ 2,484 and the change in accrued compensated absences of \$ (73,045).	(70,561)
Internal service funds are used by management to charge the costs of health costs to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities.	<u>317,488</u>
Change in net assets of governmental activities	<u>\$ 5,027</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

**STATEMENT OF NET ASSETS
PROPRIETARY FUND - INTERNAL SERVICE FUND
GOVERNMENTAL ACTIVITIES**

September 30, 2009

	<u>Governmental Activities Internal Service Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 21,381
Other receivables	6,490
Prepaid expenses	<u>35,902</u>
Total assets	<u>63,773</u>
<u>Liabilities</u>	
Claims payable	234,561
Due to other funds	<u>415,675</u>
Total liabilities	<u>650,236</u>
<u>Net Assets (Deficit)</u>	
Unrestricted	<u>(586,463)</u>
Total net assets (deficit)	<u>\$(586,463)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND - INTERNAL SERVICE FUND GOVERNMENTAL ACTIVITIES

For the Year Ended September 30, 2009

	Governmental Activities Internal Service Fund
Operating Revenues:	
Health insurance premiums	\$ <u>1,281,867</u>
Total operating revenues	<u>1,281,867</u>
Operating Expenses:	
Health claims	986,468
Administrative fees	<u>613,745</u>
Total operating expenses	<u>1,600,213</u>
Operating income (loss)	(318,346)
Non-Operating Revenues:	
Earnings on investments	<u>858</u>
Change in net assets	(317,488)
Net assets (deficit) - beginning	<u>(268,975)</u>
Net assets (deficit) - ending	<u><u>\$(586,463)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - INTERNAL SERVICE FUND
GOVERNMENTAL ACTIVITIES**

For the Year Ended September 30, 2009

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash received from premiums	\$ 1,350,838
Cash received from other funds	57,891
Cash paid for claims	(933,715)
Cash paid for administrative fees	(613,745)
Net cash used by operating activities	(138,731)
Cash Flows from Investing Activities:	
Interest received	858
Net decrease in cash and cash equivalents	(137,873)
Cash and cash equivalents at the beginning of year	159,254
Cash and cash equivalents at the end of year	\$ 21,381
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	\$(318,346)
Operating Activities:	
Decrease in other receivables – stop loss	68,971
Increase in claims payable	57,891
Increase in due to general fund	52,753
Net cash used by operating activities	\$(138,731)

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

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CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Stafford (City) is an independent political subdivision of the State of Texas governed by an elected six (6) member council and a mayor. The City provides services to the citizens of the City as authorized in its charter. Presently these services include police and fire protection, building and code inspection, planning, zoning, engineering, drainage, street repair and maintenance, park maintenance, recreation facilities, municipal court and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). In September 1993, the GASB Board issued Statement No. 20, "Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting". This statement provides guidance on accounting and financial reporting for business type and enterprise fund activities. The City has elected alternative number one (1) from those provided by this standard. This alternative method elects to apply all GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989. The more significant accounting policies of the City are described below.

Financial Reporting Entity

The basic financial statements of the City include the primary government organizations, for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The decision to include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards* and GASB Statement No. 39.

Included in the reporting entity:

City of Stafford (Primary government)

The City is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or function as part of the City's financial reporting entity. Based on these considerations, the City's financial statements include the Stafford Economic Development Corporation and the Stafford Municipal School District as discretely presented component units in the City's reporting entity. Each discretely presented component unit is reported as a separate column in the government-wide financial statements. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Reporting Entity - Continued

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. The basic financial statements for the City of Stafford include all activities, organizations and functions for which the City is financially accountable. The criteria considered included (1) whether the organization is part of the City's legal entity or (2) whether the City appoints the voting majority of the organization's governing body and either (a) the City is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. In addition, an organization may be financially dependent on the City and also be included in its reporting entity. Those criteria are based upon and are consistent with those set forth in the *Codification of Governmental Accounting Standards*, Section 2100, Defining the Financial Reporting Entity and GASB Statement No. 39. The Stafford Economic Development Corporation and Stafford Municipal School District as discussed below are included in the City's reporting entity.

These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is not a component unit of any other reporting entity.

The following entities were found to be component units of the City and are included in the basic financial statements and are discretely presented:

Stafford Economic Development Corporation (SEDC)

In 1999, the City of Stafford formed the Stafford Economic Development Corporation (a 4B corporation), which was created by voters approving an additional sales tax to be used for economic development. State law (4B) allows the City to collect sales tax to assist in the promotion and development activities of the City. The Stafford Economic Development Corporation has been included as a discretely presented component unit in the City's financial statements in accordance with generally accepted accounting principles for governments. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City.

The Financial Statements for the Stafford Economic Development Corporation can be obtained from the Director of Finance, City of Stafford, Texas.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Reporting Entity - Continued

Stafford Municipal School District (SMSD)

The Stafford Municipal School District (SMSD) was created by the City of Stafford in 1977, SMSD has been included as a discretely presented component unit in the City's financial statements in accordance with generally accepted accounting principles for governments. SMSD has a separately elected Board of Trustees and is a separate legal entity. However, the City approves the District's tax rate and budget, and must approve any debt issuance made by SMSD. In 2003 the City received legislative authority from the state for the council to have voting authority with the SMSD Board over the adoption of SMSD's annual budget. Therefore, the City Council approval is required for annual budgets and for bonded debt issuance making the District a component unit of the City.

The Financial Statements of SMSD can be obtained from the Business Manager of Stafford Municipal School District, 1625 Staffordshire, Stafford, Texas 77477.

The City has an agreement with SMSD concerning its share of construction, maintenance and operating costs of a maintenance facility, and the costs of routine maintenance operations as more fully described in Note 13 of the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the primary 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and the internal service fund are reported as separate columns in the fund financial statements. Nonmajor governmental funds are combined and reported in a separate column in the fund financial statements. The City has only one proprietary fund.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounting for by a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. 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 City considers revenues to be available if they are 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. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

Sales taxes, franchise fees, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Hotel/Motel Occupancy Tax Fund* accounts for taxes collected from local hotels and motels and can only be used for special purposes as allowed by the State to promote tourism and benefit the City in attracting visitors to the City.

The *Debt Service Fund* accounts for the accumulation of resources for the payments of general long-term debt principal and interest of the governmental funds. The primary source of revenues is from sales taxes.

The *Capital Projects Fund* are used to account for the proceeds from the sale of general obligation bonds and certificates of obligation and expenditures of these proceeds for the acquisition of capital assets as designated in each bond issue.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The *Internal Service Fund* account for the City's self-funded medical insurance plan provided for the benefit of eligible employees. The revenues of this fund are received from both the general and special revenue funds, and City employees and the expenses are comprised of claims paid on behalf of the City and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the various self-insurance activities of the City. See Note 10 for additional discussion of the City's self-insurance plan.

The medical insurance plan is intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees. As of September 30, 2009, liabilities totaled \$ 650,236 and net assets (deficit) of the health insurance plan was \$(586,463).

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.

New Pronouncements

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. As the City does not have an OPEB, this statement will not have an effect on the financial statements.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. This statement was implemented during the year ended September 30, 2006 and did not have a material effect on the financial statements of the City.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 52, "Land and Other Real Estate Held as Investments by Endowments", was issued November 2007. This statement does not apply to the City as it holds no endowment funds. This statement is effective for periods beginning after June 15, 2008. The statement did not have an impact on the City's financial statements.

GASB No. 53, "Accounting and Financial Reporting for Derivative Instruments", was issued June 2008. This statement provides guidance for financial reporting of derivative instruments for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of the City does not believe that the implementation of this statement will affect the financial statements of the City since it does not make direct investments in derivative instruments.

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. The management of the City is uncertain as to whether the implementation of this statement will affect the financial statements of the City. This statement is effective for periods beginning after June 15, 2010.

GASB No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", was issued April 2009. This statement is effective immediately and had no effect on the City's financial statements.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", was issued April 2009. This statement is effective immediately and had no effect on the City's financial statements.

Budgetary Data

All departments of the City submit requests for appropriation to the Finance Director so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all governmental fund types (General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund).

Financial statements in this report are based on legally enacted basis (modified accrual basis with certain exceptions) and the generally accepted accounting principles (GAAP basis).

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year-end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. There was \$ 241,666 in outstanding encumbrances at September 30, 2009.

Cash and Cash Equivalents and Investments

The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory is valued at cost and consists primarily of fuel and supplies. The consumption method of inventory is employed by the City, whereby the purchases of these supplies are charged directly to inventory for control and then expended as consumed.

Compensated Absences

The City's sick leave policy provides ten sick leave days per year. Employees may accumulate up to 180 sick leave days. Upon termination of employment, whether voluntary or involuntary, including retirement, employees receive payment for a maximum of 30 days accumulated sick leave at their base salary in effect at date of termination.

Nonexempt employees are allowed to take compensation time off for hours worked in excess of 40 hours during a week or for police officers for work in excess of 40 hours during a week. The City has established limits of 40 hours of compensation time that can be accumulated which must be taken before the end of the fiscal year.

Employees are allowed to earn up to 20 vacation leave days per year based on their length of employment with the City. No payment in lieu of taking vacation leave days is available for continuing employees, however in the case of termination due to voluntary termination, discharge, retirement, or death of an employee, the employee or their estate shall be paid for the accrued but unused vacation leave as of the effective date of termination. The maximum amount of vacation leave paid upon termination, regardless of the amount accrued but unused, shall not exceed the total of vacation hours the employee is eligible to earn during the year in which termination occurs.

The compensated absences are funded from the General Fund when due and payable. The liability for compensated absence was \$ 701,516 as of September 30, 2009.

Interfund receivables and payables

During the course of operations, transactions occur between individuals funds for specified purposes. These receivables and payables are eliminated from the Government-wide statement of net assets and are classified as "due from other funds" and "due to other funds" in the fund financial statements.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress, are reported in the applicable governmental type activities columns in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$ 1,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets - Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not included as part of the capitalized value of the assets constructed.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Improvements other than buildings	20 Years
Machinery and equipment	4-20 Years
Infrastructure	20-65 Years

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Retirement Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1999, the City implemented GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers, which standardizes financial reporting for pensions by state and local governmental employers for the Emergency Services Personnel Retirement Fund (the Fund) upon the Fund's adoption of GASB 25. For fiscal year ended September 30, 1998, the City implemented GASB Statement 27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset (see Note 9).

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has no unamortized bond premiums and discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has no unamortized bond issuance costs.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Long-Term Obligations - Continued

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 the debt is reported as other financing resources. 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.

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 use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represents the differences 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.

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Cash and cash equivalents and current investments as reported on the statement of net assets at September 30, 2009 are as follows:

	<u>Governmental Funds</u>	<u>Proprietary (Internal Service) Funds</u>	<u>Total</u>
Cash and Cash Equivalents:			
Cash (petty cash accounts)	\$ 2,164	\$	\$ 2,164
Financial Institution Deposits:			
Demand deposits	<u>22,474,997</u>	<u>21,381</u>	<u>22,496,378</u>
Total cash and cash equivalents	<u>\$ 22,477,161</u>	<u>\$ 21,381</u>	<u>\$ 22,498,542</u>

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City’s deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of all balances.

Under Texas state law, a bank serving as the depository must have a bond or in lieu thereof, deposited or pledged securities (or letters of credit) with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

At September 30, 2009, in addition to petty cash of \$ 2,164, the carrying amount of the City's cash, savings, and time deposits was \$ 22,496,378. The financial institutions balances were \$ 22,695,779 at September 30, 2009. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 22,445,779 was covered by collateral pledged in the City’s name. The collateral was held in safekeeping department(s) of another bank(s), which act as the pledging bank’s agent. Total coverage was 115% of the financial institution balances at September 30, 2009.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The City held no investments at September 30, 2009. The City is not exposed to custodial credit risk.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations and in order to meet anticipated cash flow requirements, the Investment Policy requires that unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2009, and holds no direct investments in derivatives at September 30, 2009.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 3 - RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Receivables are evaluated and an allowance for uncollectible accounts is set up when the collections are doubtful. Receivables as of September 30, 2009 are as follows:

	<u>Governmental Activities</u>
Sales taxes	\$ 1,598,937
Franchise fees	108,000
Hotel occupancy tax	69,774
Special assessments	41,905
Component Units	15,177
Accrued interest	26
Stop loss receivable	6,490
Municipal court	<u>1,951,590</u>
Gross receivable	3,791,899
Allowance for doubtful accounts	<u>1,795,398</u>
Net receivable	<u>\$ 1,996,501</u>

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2009 was \$ 1,795,398.

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are 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.

As of September 30, 2009, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent special assessments (capital projects fund)	\$ 41,905	\$
Sales taxes		10,332
Stafford Centre revenue		<u>231,642</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 41,905</u>	<u>\$ 241,974</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2009 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds (Major):		
Hotel Occupancy Tax Fund	\$ <u>30,215</u>	\$ _____
Special Revenue Funds (Non-major):		
Court Efficiency Fund		6,890
Court Security Fund		8,074
Court Technology Fund	390	85,480
Child Safety Fees		28,350
Participation, agreements and other	8,106	
Capital Projects Fund	<u>810</u>	
	<u>9,306</u>	<u>128,794</u>
Internal Service Fund	<u>415,675</u>	_____
Total General Fund	<u>455,196</u>	<u>128,794</u>
Special Revenue Fund (Major):		
Hotel Occupancy Tax Fund:		
General Fund	_____	<u>30,215</u>
Special Revenue Funds (Non-major):		
General Fund:		
Court Efficiency Fund	6,890	
Court Security Fund	8,074	
Court Technology Fund	85,480	390
Child Safety Fees	28,350	
Participation, agreements and other	_____	<u>8,106</u>
Total special revenue fund (non-major)	<u>128,794</u>	<u>8,496</u>
Capital Projects Fund:		
General Fund	_____	<u>810</u>
Internal Service:		
General Fund	_____	<u>415,675</u>
Total	<u>\$ 583,990</u>	<u>\$ 583,990</u>

Amounts reported as interfund receivables/payables are considered temporary loans needed for normal operations and will be repaid during the following fiscal year.

There were no interfund transfers for the year ended September 30, 2009.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 6 - CAPITAL ASSETS

Capital Asset Activity

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

	<u>Balance</u> <u>10/01/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/09</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 4,948,125	\$	\$	\$ 4,948,125
Construction in progress	<u>1,609,272</u>	<u>1,918,952</u>	<u> </u>	<u>3,528,224</u>
Total capital assets, not being depreciated	<u>6,557,397</u>	<u>1,918,952</u>	<u>-0-</u>	<u>8,476,349</u>
Capital Assets, Being Depreciated:				
Buildings	31,670,564			31,670,564
Improvements other than buildings	1,721,012	182,133		1,903,145
Machinery and equipment	9,988,393	623,263	230,863	10,380,793
Infrastructure	<u>45,423,561</u>	<u> </u>	<u> </u>	<u>45,423,561</u>
Total capital assets, being depreciated	<u>88,803,530</u>	<u>805,396</u>	<u>230,863</u>	<u>89,378,063</u>
Accumulated Depreciation:				
Buildings	5,943,128	791,764		6,734,892
Improvements other than buildings	901,620	88,302		989,922
Machinery and equipment	5,230,994	642,004	175,763	5,697,235
Infrastructure	<u>28,044,591</u>	<u>1,243,715</u>	<u> </u>	<u>29,288,306</u>
Total accumulated depreciation	<u>40,120,333</u>	<u>2,765,785</u>	<u>175,763</u>	<u>42,710,355</u>
Total capital assets being depreciated, net	<u>48,683,197</u>	<u>(1,960,389)</u>	<u>55,100</u>	<u>46,667,708</u>
Total capital assets, net	<u>\$55,240,594</u>	<u>\$ (41,437)</u>	<u>\$ 55,100</u>	<u>\$55,144,057</u>
Proceeds from sale of assets			\$ 16,833	
Basis in assets sold			<u>55,100</u>	
Gain (loss) on disposal			<u>\$ (38,267)</u>	

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

Governmental Activities:	
General administration	\$ 91,927
Municipal services and public works	1,309,269
Police and emergency services	485,380
Recreation and performing arts	852,591
Judicial	<u>26,618</u>
Total depreciation expense-governmental activities	<u>\$ 2,765,785</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 6 - CAPITAL ASSETS - Continued

Capital Asset Activity - Continued

Construction in progress for various projects as of September 30, 2009 is as follows:

<u>Project</u>	<u>Contract Value</u>	<u>Expended To Date</u>	<u>Commitment</u>
Fifth Street Project	\$ 909,260	\$ 859,260	\$ 50,000
Staffordshire	4,000,000	2,309,777	1,690,223
US 59 Monuments	444,000	83,232	360,768
Memorial Gardens	118,455	113,455	5,000
Brand Lane	<u>950,000</u>	<u>162,500</u>	<u>787,500</u>
	<u>\$ 6,421,715</u>	<u>\$ 3,528,224</u>	<u>\$ 2,893,491</u>

US Highway 90A Project

In January 2003, the City entered into an agreement with the Texas Department of Transportation ("TXDOT") for the relocation of existing railroads and the widening of US Highway 90A. A portion of the project is being funded from the U.S. Department of Transportation's "Highway Planning and Construction Program" (CFDA # 20.205) through TXDOT. The agreement requires the City to contribute the lesser of 10% of the total project costs or \$ 8,000,000. The City's contribution counts towards the local matching requirements needed for federal funding thus is subject to single audit requirements even though no federal funds have been or will be received by the City from this grant. The project costs associated with the grant are estimated to be \$ 80,000,000. The City expended \$ 142,480 towards their required contribution during the year ended September 30, 2006 bringing their total contribution to date to \$ 6,526,576. In addition, the City funded \$ 1,400,000 to the State to move fiberoptic lines as specified in the contract. As of September 30, 2006 the fiberoptic lines had not been moved and as such, the \$ 1,400,000 has been recorded as cash with fiscal agent. As the City will not own any of the assets related to the project none of the cost have been capitalized and the expenditures have been recorded in the municipal services and public works line item in the accompanying financial statements. In addition, the City has requested certain enhancements to the project, which are being funded 100% by the City. The State requires all funding for the enhancements to be deposited with them prior to commencement. During the year ended September 30, 2005, \$ 1,347,028 was funded to the State and has been recorded as cash with fiscal agent and included in the cash and cash equivalents line item in the accompanying financial statements. Upon receipt of the enhancements the City will record the appropriate expenditure and reduce the amounts recorded as cash with fiscal agent. As of September 30, 2009, the enhancements have not been completed.

Upon completion of the project, the agreement requires the City to design, construct and maintain earthen berms and related enhancements. The City expects the total cost of the berms and enhancements to be approximately \$ 4,000,000.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT

The City issues general obligation bonds, certificates of obligation, permanent improvement bonds and permanent improvement refunding bonds. Payments of principal and interest on the debt are provided primarily from sales taxes. The sales tax for debt payments was specifically approved by voters for servicing debt to lower the property taxes required for debt service. According to state law, when a City has sales taxes approved to be used for debt payment and the City does not levy property taxes for debt service, the City is allowed to use sales tax deposits that exceed the amount of revenue needed to pay the current year debt service requirements of the City for municipal purposes consistent with the municipal budget. For the year ended September 30, 2009, the City had excess sales taxes collected of \$ 10,295,559 over sales tax obligation debt requirements. These amounts have been recorded in the General Fund to be used as approved by City Council. Investment income realized by the Debt Service Fund from investment funds will be used to pay outstanding bond principal and interest.

Summary of Long-Term Debt Transactions

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2009:

	<u>Balance</u> <u>10/01/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/09</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 1,205,000	\$	\$ 180,000	\$ 1,025,000	\$ 200,000
Certificates of obligation	785,000		250,000	535,000	275,000
Capital leases payable	618,365		141,574	476,791	148,352
Sales tax obligation	2,781,431	62,447	117,641	2,726,237	118,521
Compensated absences - sick leave	628,471	588,373	515,328	701,516	701,516
Component of Long-term Debt:					
Accrued interest payable	<u>10,967</u>	<u>8,483</u>	<u>10,967</u>	<u>8,483</u>	<u>8,483</u>
	<u>\$ 6,029,234</u>	<u>\$ 659,303</u>	<u>\$ 1,215,510</u>	<u>\$ 5,473,027</u>	<u>\$ 1,451,872</u>

Long-term bonded debt at September 30, 2009 is comprised of the following individual issues:

<u>Obligation</u>	<u>Interest</u> <u>Rates</u>	<u>Final</u> <u>Maturity</u>	<u>Outstanding</u> <u>09/30/09</u>
General Obligation Bonds:			
Permanent Improvement Bonds, Series 2004	2.10-4.00%	2014	\$ 1,025,000
Certificate of Obligations, Series 2002	2.50-4.35%	2011	<u>535,000</u>
Total primary government			<u>\$ 1,560,000</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT - Continued

Summary of Long-Term Debt Transactions - Continued

General obligation bonds and certificates of obligation transactions for the year ended September 30, 2009 are as follows:

Bonds outstanding, September 30, 2008	\$ 1,990,000
Maturities	<u>(430,000)</u>
Bonds outstanding, September 30, 2009	\$ <u>1,560,000</u>

The City is in compliance with all significant bond limitations and restrictions contained in various bond orders. \$ 1,045,205 is available in the debt service fund to service the general obligation debt.

The annual requirements on general obligation bonds and certificates of obligation, as of September 30, 2009, are shown below:

Years Ending September 30,	<u>General Obligation Bonds</u>			<u>Certificates of Obligation</u>		
	<u>Totals</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 227,705	\$ 190,000	\$ 37,705	\$ 283,012	\$ 260,000	\$ 23,012
2011	231,150	200,000	31,150	286,962	275,000	11,962
2012	224,150	200,000	24,150			
2013	231,750	215,000	16,750			
2014	<u>228,590</u>	<u>220,000</u>	<u>8,590</u>			
Totals	\$ <u>1,143,345</u>	\$ <u>1,025,000</u>	\$ <u>118,345</u>	\$ <u>569,974</u>	\$ <u>535,000</u>	\$ <u>34,974</u>

Bonded Debt

Presented below is a summary of general obligation bonds and certificates of obligation requirements to maturity:

<u>Years Ending September 30,</u>	<u>Totals</u>		
	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 510,717	\$ 450,000	\$ 60,717
2011	518,112	475,000	43,112
2012	224,150	200,000	24,150
2013	231,750	215,000	16,750
2014	<u>228,590</u>	<u>220,000</u>	<u>8,590</u>
Total	\$ <u>1,713,319</u>	\$ <u>1,560,000</u>	\$ <u>153,319</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT - Continued

Excess Sales Tax Liability

Excess sales tax liability at September 30, 2009 is comprised of the following:

<u>Obligation</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding 09/30/09</u>
Excess Sales Tax:			
Excess sales tax collections	0.00%	2032	\$ <u>2,726,237</u>

Excess sales tax liability transactions for the year ended September 30, 2009 are as follows:

Excess sales tax liability, September 30, 2008	\$ 2,781,431
Negotiated conversion to long-term debt	62,447
Payments withheld from sales tax revenues	<u>(117,641)</u>
Excess sales tax liability, September 30, 2009	\$ <u>2,726,237</u>

There are no compliance requirements related to the excess sales tax liability. The State Comptroller will deduct \$ 9,876.75 each month from the City's sales tax collections.

Presented below is a summary of excess sales tax liability requirements to maturity:

<u>Years Ending September 30,</u>	<u>Total</u>
2010	\$ 118,521
2011	118,520
2012	118,521
2013	118,520
2014	118,521
2015	118,520
2016	118,521
2017	118,520
2018	118,521
2019	118,520
2020	118,521
2021	118,520
2022	118,521
2023	118,520
2024	118,521
2025	118,520
2026	118,521
2027	118,520
2028	118,521

(continued)

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 7 - LONG-TERM DEBT - Continued

Excess Sales Tax Liability - Continued

<u>Years Ending September 30,</u>	<u>Total</u>
2029	\$ 118,520
2030	118,521
2031	118,520
2032	<u>118,786</u>
Total	<u>\$ 2,726,237</u>

Federal Tax Compliance (Arbitrage) for Long-Term Debt

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986, as amended, (the "Code") the City's long-term debt obligations must meet certain minimum criteria to be considered and continue to be considered "tax exempt". This "tax exempt" status means that interest income earned by purchasers of the City's long-term debt instruments is not subject to federal income taxes. Related Treasury Regulations promulgated under section 148 of the Code generally provide that the determination of whether these obligations are tax exempt is made as of the date such obligations are issued based on a reasonable expectation regarding the use of the proceeds of the bonds issued. Long-term debt that does not meet and continue to meet the minimum criteria of Section 148 of the Code and the related Treasury Regulations described above are considered "arbitrage bonds" and are not considered "tax exempt" as described above.

Rebate

Obligations will become arbitrage bonds (as described above) if certain arbitrage profits are not paid to the federal government as rebate under section 148(f) of the Code. The City's obligations to calculate and make rebate payments (if any) will continue as long as there are gross proceeds allocable to outstanding debt issues. The City has performed calculations required under section 148(f) of the Code and has no present liability nor has the City ever been required to make rebate payments for issued debt in past years.

Unexpended Debt Issuance Proceeds (Yields Restriction Requirements)

Section 148 of the Code also provides that in order for debt to be considered arbitrage bonds (as described above), proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued starting on the third anniversary of the issue date of such debt. Accordingly, any unexpended proceeds of debt issued by the City that remain unexpended more than three years after such debt was issued should be yield restricted. The yield restriction may be accomplished by making yield reduction payments pursuant to Treas. Reg. Section 1.148-5(c). The City presently has unexpended proceeds from certain debt issued that require yield restriction as described above. The City is currently in compliance with these yield restriction requirements and does not anticipate associated significant noncompliance issues. The City is continuing to proceed with reasonable diligence to expense any remaining unexpended debt issuance proceeds on qualifying projects or to retire related debt issues still outstanding.

At September 30, 2009, no arbitrage liability exists.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 8 - LEASES

Capital Leases

During the year ended September 30, 2004, the City entered into a lease purchase agreement for firefighting equipment (Typhoon Pumper w/50' boom) costing \$ 455,386. The lease is for period of seven years with annual payments of \$ 78,386 and an effective interest rate of 4.89%. Interest paid on this lease was \$ 10,460 for the year ended September 30, 2009.

During the year ended September 30, 2007, the City entered into a lease purchase agreement for firefighting equipment (Custom Pumper) costing \$ 542,000. The lease is for period of seven years with annual payments of \$ 92,627 and an effective interest rate of 4.69%. Interest paid on this lease was \$ 18,979 for the year ended September 30, 2009.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of September 30, 2009:

<u>Year Ended September 30,</u>	<u>Amount</u>
2010	\$ 171,014
2011	171,013
2012	92,627
2013	<u>92,627</u>
Total minimum lease payments	527,281
Less amount representing interest	<u>(50,490)</u>
Net present value of minimum lease payments	<u>\$ 476,791</u>

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Vehicles	\$ 1,677,978
Less: Accumulated depreciation	<u>(598,784)</u>
Total	<u>\$ 1,079,194</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 9 - RETIREMENT PLANS

Pension Trust Fund

At its December 5, 2008, meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2008. A summary of actuarial assumptions and definitions can be found in the December 31, 2008 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustees rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

In 2009, the TMRS Advisory Committee was instrumental in the drafting and the ultimate passing of new legislation. The bill containing proposals from the TMRS Advisory Committee was passed by both houses of the Legislature and on May 26th was signed as part of the 81st legislative session. The final, Board-approved legislative package passed into law contained three elements:

1. Guarantee an annual interest credit of at least 5% to member accounts and set the discount rate used in setting the annuity purchase rate for retirees at a minimum of 5%.
2. Allow the crediting of unrealized income or losses to municipality accounts.
3. Allow municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest.

The City, as an employer, participates as one of the 829 plans in the statewide agent multiple-employer plan administered by the System, providing pension benefits for all of its full-time employees. The plan provisions that have been adopted by the Texas Municipal Retirement System (TMRS) Board of Trustees are within the options available in the governing state statutes. Employees can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The contribution rate for employees is 7% and the matching percentage for the City is 200%. The City, as an employer, has adopted 100% updated service credit (USC) on a repeating basis and annual increases (AI) on a repeating basis, at 70% of the change in the CPI. Employees are vested after 5 years of service, but their accumulated deposits and interest must remain in the plan to receive any employer-financed benefits. At retirement, death, disability, the benefit is calculated by converting the sum of the employee's personal account balance and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed the TMR Act. Members may choose to receive their retirement benefit in one

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 9 - RETIREMENT PLANS - Continued

Pension Trust Fund - Continued

of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD). The drop in funded ratio in 2007 is due primarily to a funding method change adopted by the TMRS Board to advance fund annually repeating USC and AI. (See a complete description of the changes adopted by the TMRS Board at its December 2007 meeting in the Management Discussion and Analysis of this CAFR). As an employer, the City's annual pension costs and contributions to the Pension Trust Fund for the years ended September 30, 2009, 2008 and 2007 were \$ 711,680, \$ 648,110, and \$ 567,695, respectively, which equaled the required contributions each year.

Plan Provisions -

	<u>2006</u>	<u>2007*</u>	<u>2007</u>	<u>2008</u>
1) Total number of participating entities	821	827	827	829
City Specific:				
2) Employee deposit rate	6.0%	6.0%	6.0%	7%
3) Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1	2 to 1
4) Years required for vesting	5	5	5	5
5) Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20	60/5, 0/20
6) Updated service credit annually repeating (Y/N)	100% Y	100% Y	100% Y	100% Y
7) Annuity increase to retirees annually repeating (Y/N)	70% Y	70% Y	70% Y	70% Y
8) Supplemental death benefit: For active employees (Y/N)	Y	Y	Y	Y
For retirees (Y/N)	Y	Y	Y	Y

Actuarial Information -

	<u>2006</u>	<u>2007*</u>	<u>2007</u>	<u>2008</u>
1) Actuarial cost method	Unit Credit	Unit Credit	Projected Unit Credit	Projected Unit Credit
2) Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
3) Amortization period	25 years - open period	25 years - open period	30 years - closed period	30 years - closed period
4) Asset valuation method	amortized cost	amortized cost	amortized cost	amortized cost
5) Assumptions:				
Investment return	7.0%	7.0%	7.0%	7.0%
Projected salary increases	None	None	varies by age and service	varies by age and service
Inflation	3.5%	3.5%	3.0%	3.0%
Cost-of-living adjustments	low/low	low/low	mid/mid	mid/mid
6) City specific assumptions				
Payroll growth assumption	low/low	low/low	mid/mid	mid/mid

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 9 - RETIREMENT PLANS - Continued

Pension Trust Fund - Continued

Funding Information -

Actuarial Valuation Date	Actuarial Value of Assets*** (a)	Actuarial Accrued Liability** (AAL)- (b)	Unfunded AAL (UAAL) (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
2006	\$ 12,663,087	\$ 14,411,983	\$ 1,748,896	87.9%	\$ 4,500,486	38.9%
2007	13,410,228	17,295,621	3,885,393	77.5%	4,743,048	81.9%
2008	13,292,631	17,866,978	4,574,347	74.4%	5,400,667	84.7%

* Under old assumptions (for comparative purposes only).

** As of December 31 of the preceding year, the date of the actuarial valuation.

*** Assets are stated cost as of December 31 of the preceding year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

Deferred Compensation Plan

The City also offers its employees a deferred compensation plan (457 Plan) created in accordance with Internal Revenue Code Section 457. The 457 Plan is administered by Nationwide Retirement Solutions, Inc. and is available to all full time employees over the age of eighteen (18) immediately upon becoming employed by the City. The 457 Plan functions for the benefit of the employees and their beneficiaries. Participants may contribute up to the amount allowable under the provisions of the Internal Revenue Code. The City does not match participant contributions. The 457 Plan is not reported in the City's basic financial statements.

Participant contributions for the year ended September 30, 2009 were \$ 77,277. The trustee of the plan distributes any benefits provided by the plan from net assets available for plan benefits. Contributions made by participants vest immediately in their accounts. Contributions made by the City vest in the participants' accounts at the time such contribution is made. When a participant retires, terminates employment or becomes disabled, he/she is entitled to receive all amounts in which he/she has a vested interest in either a lump-sum payment, periodic payment by fixed amount, periodic payment by fixed time period, partial lump sum payment, or purchased annuity contract. Participants are allowed to make hardship withdrawals as defined by the 457 Plan. The 457 Plan has met the ERISA minimum funding requirements.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 10 - SELF-INSURED HEALTH CARE

During the year ended September 30, 2009 employees of the City were covered by a self-funded health insurance plan (the "plan"). Health claim payments are payments by the City on behalf of the employees to pay premiums for dependents' health insurance processed by a third party administrator acting on behalf of the City. See Note 1 for additional discussion of the plan.

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Combined Insurance Company of America, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$ 35,000 and for aggregate loss exceeding \$ 1,000,000. At September 30, 2009, the City has recorded current health claim short-term liabilities of \$ 234,561 in the internal service fund representing claims reported but not paid and incurred but not reported.

These liabilities are based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

The latest financial statements available for Combined Insurance Company of America are filed with the Texas State Board of Insurance, Austin, Texas, and are public records. The City provides post-retirement health benefits to its employees.

Changes in the medical claims liability amounts in fiscal 2006-2007, 2007-2008 and 2008-2009 are represented below:

	<u>Beginning of Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2006-2007-Medical	\$ 196,170	\$ 1,073,957	\$ 1,142,098	\$ 128,029
2007-2008-Medical	128,029	1,379,606	1,325,827	181,808
2008-2009-Medical	181,808	986,468	933,715	234,561

NOTE 11 - 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. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance, and from participation in a risk pool. The City has not had any significant reductions in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. At year-end, the City did not have any significant claims.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 12 - DEFICIT FUND BALANCE

The contributions by the City to the City's self-funded medical plan, as accounted for in the Internal Service Fund were not sufficient to cover expenses incurred during the current year. At September 30, 2009, the medical plan internal service fund has a deficit net assets of \$ 586,463.

NOTE 13 - AGREEMENT WITH STAFFORD MUNICIPAL SCHOOL DISTRICT ("SMSD") REGARDING MAINTENANCE FACILITY AND ROUTINE MAINTENANCE OPERATIONS

Under the terms of an agreement, the SMSD paid approximately \$ 200,000 in a prior year for the construction of a maintenance facility to jointly benefit the City and the SMSD. The facility is owned and operated by the City, and the SMSD's costs for the facility's construction, under the terms of the agreement, were recorded by the City as a donation and capitalized as a capital asset.

The agreement provides for the SMSD's portion of operating costs of the facility, as well as the costs of routine maintenance operations provided to the SMSD by the City, to be paid by the SMSD. The City accumulates these costs and bills the SMSD periodically during the year. The routine maintenance activities provided by the City include all vehicle maintenance and operations and all grounds maintenance and operations. The 2008-2009 annual billing to the SMSD for these City provided services was \$ 183,549, with \$ 15,177 recorded as a receivable as of September 30, 2009 in the General Fund. The City also provides SMSD the use of the Civic Center and Police Officers at no charge.

NOTE 14 - CONTRIBUTIONS FROM COMPONENT UNIT

During the year ended September 30, 2009, the Stafford Economic Development Corporation contributed a total of \$ 130,256 to the City. Of this amount, \$ 28,918 related to the US 59 monument and \$ 101,338 related to the Stafford Centre. The assets are reflected in the government-wide statement of net assets and the contribution has been recorded as capital grants and contributions in the statement of activities.

NOTE 15 - PARTICIPATION AGREEMENTS

The City has cost participation agreements with various developers pertaining to the purchase and operating costs of street lighting facilities and the construction of street and drainage facilities. Amounts received and disbursed under the agreements for the civic center are accounted for in the special revenue fund. Unexpended amounts from participation contributions for use under the terms of these agreements at September 30, 2009, are as follows:

Street lighting participation	\$ 10,741
Street and drainage participation	<u>170,406</u>
Total	<u>\$ 181,147</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2009

NOTE 16 - SPECIAL ASSESSMENT - IMPACT FEES

The City completed special work in a subdivision within the City which was financed by general obligation bonds. The City financed the project out of the capital projects fund and has assessed the owners of the property \$ 481,000 to be reimbursed to the City over seven years. The impact fees are recorded in the capital project fund as revenue when the payments are received from homeowners. The related receivable and deferred revenue totaled \$ 41,905 at September 30, 2009 and is expected to be collected in subsequent years. As of September 30, 2009, the entire balance was considered past due.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STAFFORD

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2009

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 12,180,000	\$ 12,180,000	\$ 11,970,961	\$(209,039)
Licenses and permits	372,000	384,000	389,542	5,542
Fines and fees	900,000	900,000	804,689	(95,311)
Fees and charges for services	1,908,935	1,916,335	1,805,585	(110,750)
Interest	379,980	379,980	193,688	(186,292)
Intergovernmental	1,422,680	1,920,680	1,130,549	(790,131)
Miscellaneous	115,000	229,500	262,656	33,156
Total revenues	17,278,595	17,910,495	16,557,670	(1,352,825)
Expenditures:				
Current:				
General administration	2,570,761	2,659,965	2,072,577	587,388
Financial administration	280,529	280,529	256,844	23,685
Municipal services and public works	3,902,589	4,492,630	4,024,875	467,755
Police and emergency services	6,092,325	6,304,901	5,681,547	623,354
Recreation and performing arts	478,612	535,837	465,991	69,846
Stafford Centre	1,150,000	1,150,000	1,180,215	(30,215)
Judicial	422,751	430,401	410,555	19,846
Capital outlay	4,137,159	4,498,609	2,401,394	2,097,215
Debt Service:				
Principal retirement	176,386	294,386	259,215	35,171
Interest and fiscal charges			29,439	(29,439)
Total expenditures	19,211,112	20,647,258	16,782,652	3,864,606
Excess (deficiency) of revenues over expenditures	(1,923,517)	(2,736,763)	(224,982)	2,511,781
Other Financing Sources (Uses):				
Proceeds from the sale of capital assets	10,000	16,850	16,833	(17)
Total other financing sources (uses)	10,000	16,850	16,833	(17)
Net changes in fund balance	(1,932,517)	(2,719,913)	(208,149)	2,511,764
Fund balance - beginning	15,641,628	15,641,628	15,641,628	-0-
Fund balance - ending	\$ 13,719,111	\$ 12,921,715	\$ 15,433,479	\$ 2,511,764

CITY OF STAFFORD

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
HOTEL OCCUPANCY TAX - SPECIAL REVENUE FUND**

For the Year Ended September 30, 2009

	Hotel Occupancy Tax			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Hotel occupancy taxes	\$ 975,000	\$ 975,000	\$ 1,011,382	\$ 36,382
Interest	59,485	59,485	39,238	(20,247)
Total revenues	<u>1,034,485</u>	<u>1,034,485</u>	<u>1,050,620</u>	<u>16,135</u>
Expenditures:				
Current:				
Recreation and performing arts	818,518	804,056	653,635	150,421
Capital outlay	<u>37,374</u>	<u>107,756</u>	<u>74,372</u>	<u>33,384</u>
Total expenditures	<u>855,892</u>	<u>911,812</u>	<u>728,007</u>	<u>183,805</u>
Excess (deficiency) of revenues over expenditures	178,593	122,673	322,613	199,940
Other Financing Sources (Uses):				
Total other financing sources (uses)				-0-
Net changes in fund balance	178,593	122,673	322,613	199,940
Fund balance - beginning	<u>2,805,119</u>	<u>2,805,119</u>	<u>2,805,119</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 2,983,712</u>	<u>\$ 2,927,792</u>	<u>\$ 3,127,732</u>	<u>\$ 199,940</u>

CITY OF STAFFORD

Stafford, Texas

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
LAST THREE FISCAL YEARS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets**</u>	<u>Actuarial Accrued Liability* (AAL)-</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31,	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/(c)
2006	\$ 12,663,087	\$ 14,411,983	\$ 1,748,896	87.9%	\$ 4,500,486	38.9%
2007	13,410,228	17,295,621	3,885,393	77.5%	4,743,048	81.9%
2008	13,292,631	17,866,978	4,574,347	74.4%	5,400,667	84.7%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at cost as of December 31 of the preceding year.

OTHER SUPPLEMENTAL INFORMATION

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CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
City sales tax	\$ 10,490,000	\$ 10,490,000	\$ 10,295,559	\$(194,441)
Franchise fees	1,570,000	1,570,000	1,550,785	(19,215)
Mixed beverage tax	<u>120,000</u>	<u>120,000</u>	<u>124,617</u>	<u>4,617</u>
Total taxes	<u>12,180,000</u>	<u>12,180,000</u>	<u>11,970,961</u>	<u>(209,039)</u>
Licenses and Permits:				
Buildings and other permits	300,000	300,000	318,709	18,709
Fire marshal fees	50,000	62,000	67,345	5,345
Filing plat fees	<u>22,000</u>	<u>22,000</u>	<u>3,488</u>	<u>(18,512)</u>
Total licenses and permits	<u>372,000</u>	<u>384,000</u>	<u>389,542</u>	<u>5,542</u>
Fines and forfeitures	<u>900,000</u>	<u>900,000</u>	<u>804,689</u>	<u>(95,311)</u>
Fees and Charges for Services:				
Civic Center	160,000	160,000	141,185	(18,815)
Stafford Centre	1,150,000	1,150,000	1,136,266	(13,734)
Garbage collection fees	561,935	561,935	491,880	(70,055)
Recreation and swimming pool receipts	20,000	27,400	28,294	894
EMS fees	<u>17,000</u>	<u>17,000</u>	<u>7,960</u>	<u>(9,040)</u>
Total fees and charges for services	<u>1,908,935</u>	<u>1,916,335</u>	<u>1,805,585</u>	<u>(110,750)</u>
Interest earnings	<u>379,980</u>	<u>379,980</u>	<u>193,688</u>	<u>(186,292)</u>
Intergovernmental Revenues:				
Stafford Economic Development Corp.	220,180	220,180	223,515	3,335
Stafford Municipal School District	247,500	247,500	183,549	(63,951)
Fire call reimbursements	270,000	270,000	229,227	(40,773)
Fort Bend County	685,000	1,000,000	316,070	(683,930)
FEMA reimbursements	<u></u>	<u>183,000</u>	<u>178,188</u>	<u>(4,812)</u>
Total intergovernmental revenues	<u>1,422,680</u>	<u>1,920,680</u>	<u>1,130,549</u>	<u>(790,131)</u>
Other Revenues:				
Miscellaneous	55,000	130,000	157,034	27,034
Sale of fixed assets	10,000	16,500	16,833	333
Reimbursements	<u>60,000</u>	<u>99,500</u>	<u>105,622</u>	<u>6,122</u>
Total other revenues	<u>125,000</u>	<u>246,000</u>	<u>279,489</u>	<u>33,489</u>
Total revenues	<u>\$ 17,288,595</u>	<u>\$ 17,926,995</u>	<u>\$ 16,574,503</u>	<u>\$(1,352,492)</u>

CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND - Continued

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
General Administration:				
Mayor, City Council & Dept. Heads:				
Salaries and benefits	\$ 52,358	\$ 53,008	\$ 51,505	\$ 1,506
Operating expense	<u>19,230</u>	<u>20,230</u>	<u>14,241</u>	<u>5,989</u>
Total mayor, city council & dept. heads	<u>71,588</u>	<u>73,238</u>	<u>65,746</u>	<u>7,492</u>
General Government:				
Salaries and benefits	339,529	345,779	314,728	31,051
Professional and contract fees	594,800	636,300	548,279	88,021
Operating expense	349,370	358,259	187,162	171,097
Utilities	97,000	97,000	81,035	15,965
Other expense	<u>120,000</u>	<u>150,000</u>	<u></u>	<u>150,000</u>
Total general government	<u>1,500,699</u>	<u>1,587,338</u>	<u>1,131,204</u>	<u>456,134</u>
Promotion and Development:				
Other expenses	49,000	49,000	19,208	29,792
Garbage collection fees	558,435	558,435	490,144	68,291
Capital outlay	<u>30,000</u>	<u>30,000</u>	<u>15,000</u>	<u>15,000</u>
Total promotion and development	<u>637,435</u>	<u>657,371</u>	<u>524,352</u>	<u>113,083</u>
Television Production:				
Salaries and benefits	103,657	103,657	104,454	(797)
Operating expense	109,200	109,545	118,131	(8,586)
Utilities	600	600	385	215
Capital outlay	<u>44,980</u>	<u>79,168</u>	<u>54,775</u>	<u>24,393</u>
Total television production	<u>258,437</u>	<u>292,970</u>	<u>277,745</u>	<u>15,225</u>
Computer/IT Department:				
Salaries and benefits	124,132	124,702	122,617	2,085
Operating expense	42,550	39,550	13,459	26,091
Utilities	10,900	13,900	7,229	6,671
Capital outlay	<u>25,000</u>	<u>25,000</u>	<u>12,602</u>	<u>12,398</u>
Total computer/IT department	<u>202,582</u>	<u>203,152</u>	<u>155,907</u>	<u>47,245</u>
Total general administration	<u>2,670,141</u>	<u>2,794,133</u>	<u>2,154,954</u>	<u>639,179</u>

(continued)

CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND - Continued

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Financial Administration:				
Salaries and benefits	\$ 255,629	\$ 255,629	\$ 243,799	\$ 11,830
Operating expense	<u>24,900</u>	<u>24,900</u>	<u>13,045</u>	<u>11,855</u>
Total financial administration	<u>280,529</u>	<u>280,529</u>	<u>256,844</u>	<u>23,685</u>
Municipal Services and Public Works:				
Permits and Inspection Department:				
Salaries and benefits	456,139	456,736	454,683	2,053
Operating expense	43,500	43,500	25,271	18,229
Utilities (radios & mobile phone)	3,000	3,000	2,869	131
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>-0-</u>	<u>10,000</u>
Total permits and inspection department	<u>512,639</u>	<u>513,236</u>	<u>482,923</u>	<u>30,413</u>
Parks and Grounds Department:				
Salaries and benefits	638,315	641,851	622,661	19,190
Operating expense	105,000	107,100	90,059	17,041
Utilities	21,600	36,600	38,081	(1,481)
Capital outlay	<u>467,500</u>	<u>467,700</u>	<u>89,481</u>	<u>378,219</u>
Total parks and grounds department	<u>1,232,415</u>	<u>1,253,251</u>	<u>840,282</u>	<u>412,969</u>
Street Department:				
Salaries and benefits	950,646	957,446	911,777	45,669
Operating expense	316,600	875,650	723,594	152,056
Utilities	469,200	469,200	382,440	86,760
Other expense	64,000	64,000	65,559	(1,559)
Capital outlay	<u>3,125,980</u>	<u>3,376,775</u>	<u>1,908,245</u>	<u>1,468,530</u>
Total street department	<u>4,926,426</u>	<u>5,743,071</u>	<u>3,991,815</u>	<u>1,751,456</u>
Maintenance Department:				
Salaries and benefits	253,850	256,650	250,457	6,193
Operating expense	180,000	180,000	104,503	75,497
Capital outlay	<u>22,000</u>	<u>22,000</u>	<u>19,338</u>	<u>2,662</u>
Total maintenance department	<u>455,850</u>	<u>458,650</u>	<u>374,296</u>	<u>84,352</u>

(continued)

CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND - Continued

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Municipal Services and Public Works:				
Public Works:				
Salaries and benefits	\$ 345,239	\$ 345,239	\$ 268,019	\$ 77,220
Professional and contract fees	45,000	45,000	31,793	13,207
Operating expense	9,000	9,158	52,487	(43,329)
Utilities	1,500	1,500	622	878
Capital outlay	<u>53,000</u>	<u>53,000</u>	<u>-0-</u>	<u>53,000</u>
Total public works	<u>453,739</u>	<u>453,897</u>	<u>352,921</u>	<u>100,976</u>
Total municipal services and public works	<u>7,581,069</u>	<u>8,422,105</u>	<u>6,041,939</u>	<u>2,380,166</u>
Police and Emergency Services:				
Police Department:				
Salaries and benefits	4,286,639	4,393,939	3,986,282	407,657
Professional and contract fees	33,390	44,150	38,238	5,912
Operating expense	467,212	481,308	378,593	102,715
Utilities	130,672	130,672	140,312	(9,640)
Community relations	1,200	1,200	954	246
Capital outlay	<u>197,161</u>	<u>203,046</u>	<u>197,012</u>	<u>6,034</u>
Total police department	<u>5,116,274</u>	<u>5,254,315</u>	<u>4,741,391</u>	<u>512,924</u>
Fire Department:				
Salaries and benefits	731,512	782,112	700,849	81,263
Operating expense	224,200	253,520	229,105	24,415
Utilities	63,000	63,000	58,625	4,375
Capital outlay	<u>25,164</u>	<u>25,164</u>	<u>17,706</u>	<u>7,458</u>
Total fire department	<u>1,043,876</u>	<u>1,123,796</u>	<u>1,006,285</u>	<u>117,511</u>
Humane Department:				
Salaries and benefits	52,770	52,770	50,054	2,716
Professional and contract fees	12,000	12,000	12,000	-0-
Operating expense	<u>5,800</u>	<u>5,800</u>	<u>3,267</u>	<u>2,533</u>
Total humane department	<u>70,570</u>	<u>70,570</u>	<u>65,321</u>	<u>5,249</u>

(continued)

CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND - Continued

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Police and Emergency Services:				
Fire Marshal:				
Salaries and benefits	\$ 73,130	\$ 73,630	\$ 72,344	\$ 1,286
Operating expense	9,500	9,500	9,885	(385)
Utilities	1,300	1,300	1,039	261
Capital outlay	<u>5,500</u>	<u>5,500</u>	<u>2,450</u>	<u>3,050</u>
Total fire marshal	<u>89,430</u>	<u>89,930</u>	<u>85,718</u>	<u>4,212</u>
Total police and emergency service	<u>6,320,150</u>	<u>6,538,611</u>	<u>5,898,715</u>	<u>639,896</u>
Recreation and Performing Arts:				
Stafford Civic Center:				
Salaries and benefits	68,672	68,872	65,637	3,235
Professional and contract fees	55,000	55,000	40,615	14,385
Operating expense	68,700	68,700	36,955	31,745
Utilities	35,500	35,500	32,104	3,396
Capital outlay	<u>37,374</u>	<u>107,756</u>	<u>74,372</u>	<u>33,384</u>
Total Stafford Civic Center	<u>265,246</u>	<u>335,828</u>	<u>249,683</u>	<u>86,145</u>
Stafford Centre:				
Other	<u>1,150,000</u>	<u>1,150,000</u>	<u>1,180,215</u>	<u>(30,215)</u>
Total Stafford Centre	<u>1,150,000</u>	<u>1,150,000</u>	<u>1,180,215</u>	<u>(30,215)</u>
Recreation Department:				
Salaries and benefits	3,835	3,835	2,187	1,648
Professional and contract fees	27,000	62,000	47,136	14,864
Other expense	<u>45,500</u>	<u>45,500</u>	<u>38,493</u>	<u>7,007</u>
Total recreation department	<u>76,335</u>	<u>111,335</u>	<u>87,816</u>	<u>23,519</u>

(continued)

CITY OF STAFFORD

SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND - Continued

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Recreation and Performing Arts:				
Municipal Pool:				
Salaries and benefits	\$ 56,005	\$ 58,030	\$ 68,200	\$(10,170)
Operating expense	55,550	55,550	49,048	6,502
Utilities	62,850	82,850	85,616	(2,766)
Capital outlay	<u>93,500</u>	<u>93,500</u>	<u>10,413</u>	<u>83,087</u>
Total municipal pool	<u>267,905</u>	<u>289,930</u>	<u>213,277</u>	<u>76,653</u>
Total recreation and performing arts	<u>1,759,486</u>	<u>1,887,093</u>	<u>1,730,991</u>	<u>156,102</u>
Judicial:				
Salaries and benefits	398,771	406,421	392,886	13,535
Professional and contract fees	5,000	5,000	3,145	1,855
Operating expense	<u>18,980</u>	<u>18,980</u>	<u>14,524</u>	<u>4,456</u>
Total judicial	<u>422,751</u>	<u>430,401</u>	<u>410,555</u>	<u>19,846</u>
Debt Service:				
Principal retirement	176,386	294,386	259,215	35,171
Interest and fiscal charges	<u> </u>	<u> </u>	<u>29,439</u>	<u>(29,439)</u>
Total debt service	<u>176,386</u>	<u>294,386</u>	<u>288,654</u>	<u>5,732</u>
Total expenditures	<u>\$ 19,211,112</u>	<u>\$ 20,647,258</u>	<u>\$ 16,782,652</u>	<u>\$ 3,864,606</u>

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CITY OF STAFFORD

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2009

	Special Revenue			
	Courts Efficiency Fund	Narcotic Seizure Fund	Court Security Fund	Court Technology Fund
<u>Assets</u>				
Cash and cash equivalents	\$	\$ 34,574	\$	\$
Due from other funds	6,890		8,074	85,480
Accrued interest receivable	<u>13</u>			
Total assets	<u>6,903</u>	<u>34,574</u>	<u>8,074</u>	<u>85,480</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable				
Due to other funds				<u>389</u>
Total liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>389</u>
<u>Fund Balances:</u>				
<u>Reserved:</u>				
Municipal services				
Municipal court security			8,074	
Municipal court technology				85,091
<u>Unreserved:</u>				
Designated for future year's expenditures	<u>6,903</u>	<u>34,574</u>		
Total fund balances	<u>6,903</u>	<u>34,574</u>	<u>8,074</u>	<u>85,091</u>
Total liabilities and fund balances	<u>\$ 6,903</u>	<u>\$ 34,574</u>	<u>\$ 8,074</u>	<u>\$ 85,480</u>

The notes to the financial statements are an integral part of this statement.

Funds

Child Safety Fees	Police Department Funds	Participation Agreements and Other	Total Nonmajor Governmental Funds
\$ 28,350	\$ 12,205	\$ 189,653	\$ 236,432
13			128,794
28,363	12,205	189,653	365,252
		400	400
		8,107	8,496
-0-	-0-	8,507	8,896
		181,146	181,146
			8,074
			85,091
28,363	12,205		82,045
28,363	12,205	181,146	356,356
\$ 28,363	\$ 12,205	\$ 189,653	\$ 365,252

CITY OF STAFFORD

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2009

	Special Revenue			
	Courts Efficiency Fund	Narcotic Seizure Fund	Court Security Fund	Court Technology Fund
Revenues:				
Fines and forfeitures	\$ 1,893	\$	\$ 17,414	\$ 23,178
Intergovernmental				
Investment income	121	536	318	698
Miscellaneous	<u> </u>	<u>6,851</u>	<u> </u>	<u> </u>
Total revenues	<u>2,014</u>	<u>7,387</u>	<u>17,732</u>	<u>23,876</u>
Expenditures:				
Current:				
Municipal services and public works				
Police and emergency services		4,579		
Judicial	2,647		49,078	9,146
Capital outlay	<u> </u>	<u>7,105</u>	<u> </u>	<u>50,606</u>
Total expenditures	<u>2,647</u>	<u>11,684</u>	<u>49,078</u>	<u>59,752</u>
Excess (deficiency) of revenues over expenditures	(633)	(4,297)	(31,346)	(35,876)
Other Financing Sources (Uses):				
Total other financial sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	(633)	(4,297)	(31,346)	(35,876)
Fund balances – beginning	<u>7,536</u>	<u>38,871</u>	<u>39,420</u>	<u>120,967</u>
Fund balances - ending	<u>\$ 6,903</u>	<u>\$ 34,574</u>	<u>\$ 8,074</u>	<u>\$ 85,091</u>

The notes to the financial statements are an integral part of this statement.

Funds

Child Safety Fees	Police Department Funds	Participation Agreements and Other	Total Nonmajor Governmental Funds
\$	\$	\$	\$ 42,485
	46,365		46,365
92	227	2,483	4,475
<u>23,574</u>	<u>3,250</u>	<u>6,599</u>	<u>40,274</u>
<u>23,666</u>	<u>49,842</u>	<u>9,082</u>	<u>133,599</u>
		8,105	8,105
			4,579
			60,871
<u>14,250</u>	<u>46,365</u>	<u>8,105</u>	<u>118,326</u>
<u>14,250</u>	<u>46,365</u>	<u>8,105</u>	<u>191,881</u>
9,416	3,477	977	(58,282)
			<u>-0-</u>
9,416	3,477	977	(58,282)
<u>18,947</u>	<u>8,728</u>	<u>180,169</u>	<u>414,638</u>
<u>\$ 28,363</u>	<u>\$ 12,205</u>	<u>\$ 181,146</u>	<u>\$ 356,356</u>

CITY OF STAFFORD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 310,000	\$ 310,000	\$ 310,000	\$ -0-
Interest	65,970	65,970	23,549	(42,421)
Miscellaneous	<u> </u>	<u> </u>	<u>25</u>	<u>25</u>
Total revenues	<u>375,970</u>	<u>375,970</u>	<u>333,574</u>	<u>(42,396)</u>
Expenditures:				
Debt Service:				
Principal	430,000	430,000	430,000	-0-
Interest and fiscal charges	<u>79,268</u>	<u>79,268</u>	<u>78,734</u>	<u>534</u>
Total expenditures	<u>509,268</u>	<u>509,268</u>	<u>508,734</u>	<u>534</u>
Excess (deficiency) of revenues over expenditures	<u>(133,298)</u>	<u>(133,298)</u>	<u>(175,160)</u>	<u>(41,862)</u>
Net changes in fund balance	(133,298)	(133,298)	(175,160)	(41,862)
Fund balance - beginning	<u>1,220,365</u>	<u>1,220,365</u>	<u>1,220,365</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 1,087,067</u>	<u>\$ 1,087,067</u>	<u>\$ 1,045,205</u>	<u>\$ (41,862)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STAFFORD

**SCHEDULE OF CHANGES IN GOVERNMENTAL
BONDED LONG-TERM DEBT**

Year Ended September 30, 2009

<u>Date of Issue</u>	<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amount Outstanding 9/30/08</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 9/30/09</u>
02-01-02	Certificate of Obligations, Series 2002	2.50-4.35%	\$ 2,250,000	\$ 785,000	\$	\$ 250,000	\$ 535,000
06-01-04	Permanent Improvement Bonds, Series 2004	2.10-4.00%	<u>1,700,000</u>	<u>1,205,000</u>	<u> </u>	<u>180,000</u>	<u>1,025,000</u>
			<u>\$ 8,650,000</u>	<u>\$ 1,990,000</u>	<u>\$ -0-</u>	<u>\$ 430,000</u>	<u>\$ 1,560,000</u>

CITY OF STAFFORD

**ANNUAL BONDED DEBT SERVICE REQUIREMENTS
TO MATURITY BY DEBT ISSUE**

September 30, 2009

Year Ending 09/30	Total Annual Requirements			Certificate of Obligation Series 2002	
	Total	Principal	Interest	Principal	Interest
2010	\$ 510,717	\$ 450,000	\$ 60,717	\$ 260,000	\$ 23,012
2011	518,112	475,000	43,112	275,000	11,962
2012	224,150	200,000	24,150		
2013	231,750	215,000	16,750		
2014	<u>228,590</u>	<u>220,000</u>	<u>8,590</u>		
Total	<u>\$ 1,713,319</u>	<u>\$ 1,560,000</u>	<u>\$ 153,319</u>	<u>\$ 535,000</u>	<u>\$ 34,974</u>

Permanent Improvement
Bonds, Series 2004

<u>Principal</u>	<u>Interest</u>
\$ 190,000	\$ 37,705
200,000	31,150
200,000	24,150
215,000	16,750
<u>220,000</u>	<u>8,590</u>
<u>\$ 1,025,000</u>	<u>\$ 118,345</u>

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**COMPLIANCE AND INTERNAL
CONTROL SECTION**

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KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

February 22, 2010

To the Honorable Mayor and
Members of City Council
City of Stafford
Stafford, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Stafford (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 22, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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To The Honorable Mayor and
Members of City Council
February 22, 2010
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have performed tests designed to verify the City's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2009, no instances of noncompliance were found.

We noted certain matters that we reported to management of the City, in a separate letter dated February 22, 2010.

This report is intended solely for the information and use of management, the mayor, members of council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Hungford, LLC