

CITY OF STAFFORD
STAFFORD, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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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INTRODUCTORY SECTION

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CITY OF STAFFORD, TEXAS
PRINCIPAL OFFICIALS

Elected Officials

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

Appointed Officials

Karen Austin	Director of Finance and Human Resources
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 Public Works and Municipal Services

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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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Independent Auditors' Report

February 17, 2011

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's 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 85% of total assets and 91% 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, 2010 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.

www.kmkwllc.com – Email: kmkw@kmkwllc.com

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 17, 2011
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In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2011 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 and 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. The accompanying schedule of expenditures for federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-profit Organizations*, and is also not a required part of the basic financial statements of the City. The schedule of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information and the combining and individual fund schedules have also 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 & Hunsford, LLC

CITY OF STAFFORD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2010

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, 2010.

Financial Highlights

- The assets of the City of Stafford exceeded its liabilities at the close of the most recent fiscal year by \$ 73,852,978 (net assets). Of this amount, \$ 14,365,223 (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 \$ 19,831,617. 74.79% of this total amount, \$ 14,832,325 (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 \$ 14,761,432 or 73.50% 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, 2010*

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, 2010

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 55 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 \$ 73,852,978 as of September 30, 2010.

The largest portion of the City's net assets, \$ 54,711,094 (74.1%) 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

	<u>Governmental Activities</u>		<u>Change</u>	
	<u>September 30,</u>		<u>Amount</u>	<u>Percent</u>
	<u>2010</u>	<u>2009</u>		
Current and other assets	\$ 29,424,310	\$ 24,555,963	\$ 4,868,347	19.83%
Capital assets	<u>58,757,249</u>	<u>55,144,057</u>	<u>3,613,192</u>	<u>6.55%</u>
Total assets	<u>88,181,559</u>	<u>79,700,020</u>	<u>8,481,539</u>	<u>10.64%</u>
Current and other liabilities	9,513,861	1,819,535	7,694,326	422.87%
Long-term liabilities	<u>4,814,720</u>	<u>5,473,027</u>	<u>(658,307)</u>	<u>(12.03%)</u>
Total liabilities	<u>14,328,581</u>	<u>7,292,562</u>	<u>7,036,019</u>	<u>96.48%</u>

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CITY OF STAFFORD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2010*

	Governmental Activities		Change	
	September 30,		Amount	Percent
	2010	2009		
Net Assets:				
Invested in capital assets, net of related debt	\$ 54,711,094	\$ 50,381,029	\$ 4,330,065	8.59%
Restricted	4,776,661	7,642,693	(2,866,032)	(37.50%)
Unrestricted	<u>14,365,223</u>	<u>14,067,647</u>	<u>297,576</u>	<u>2.12%</u>
Total net assets	<u>\$ 73,852,978</u>	<u>\$ 72,091,369</u>	<u>\$ 1,761,609</u>	<u>2.44%</u>

An additional portion of the City's net assets of \$ 4,776,661 (6.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 14,365,223 (19.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2010, 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, 2010 and 2009. Governmental activities increased the City's net assets by \$ 1,761,609 compared to a increase of \$ 5,027 for the year ended September 30, 2009.

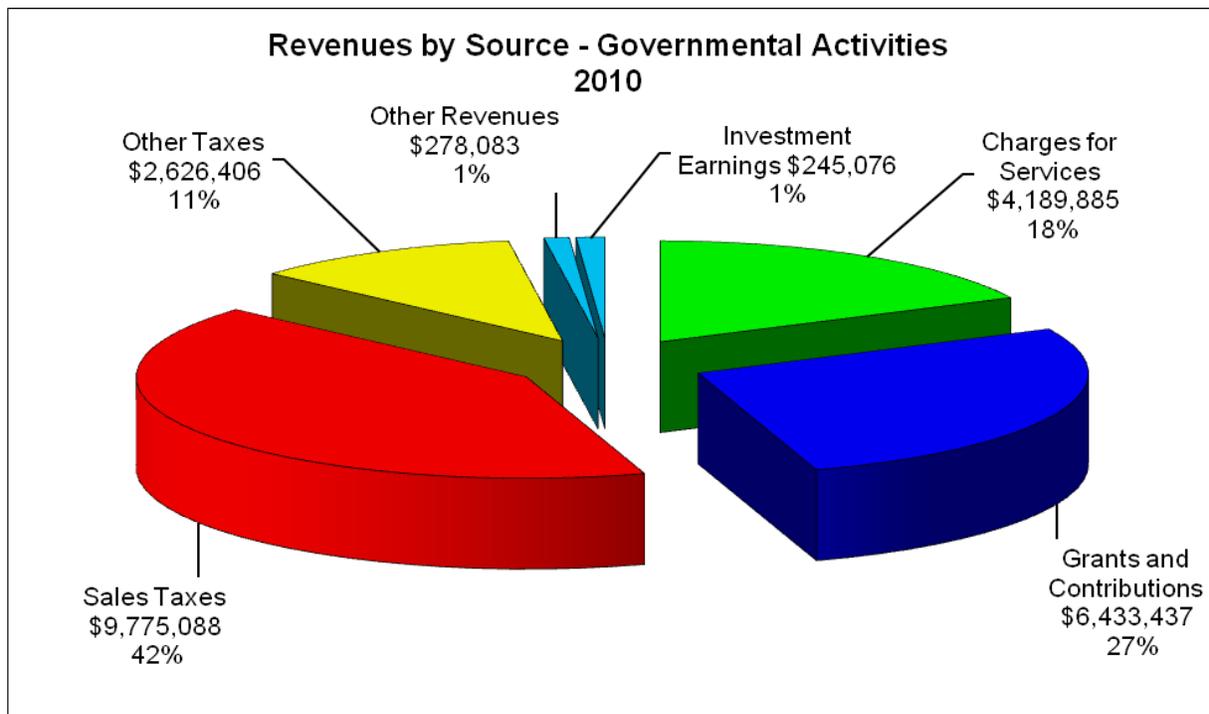
CITY OF STAFFORD'S CHANGES IN NET ASSETS

	Governmental Activities		Change	
	September 30,		Amount	Percent
	2010	2009		
Revenues:				
Program Revenues:				
Charges for services	\$ 4,189,885	\$ 4,244,666	\$(54,781)	(1.30%)
Grants and contributions	6,433,437	130,256	6,303,181	N/A
General Revenues:				
Sales tax	9,775,088	10,605,559	(830,471)	(7.83%)
Other taxes	2,626,406	2,686,344	(59,938)	(2.23%)
Unrestricted investment earnings	245,076	268,128	(23,052)	(8.60%)
Miscellaneous	<u>278,083</u>	<u>286,873</u>	<u>(8,790)</u>	<u>(3.06%)</u>
Total revenues	<u>23,547,975</u>	<u>18,221,826</u>	<u>5,326,149</u>	<u>29.23%</u>

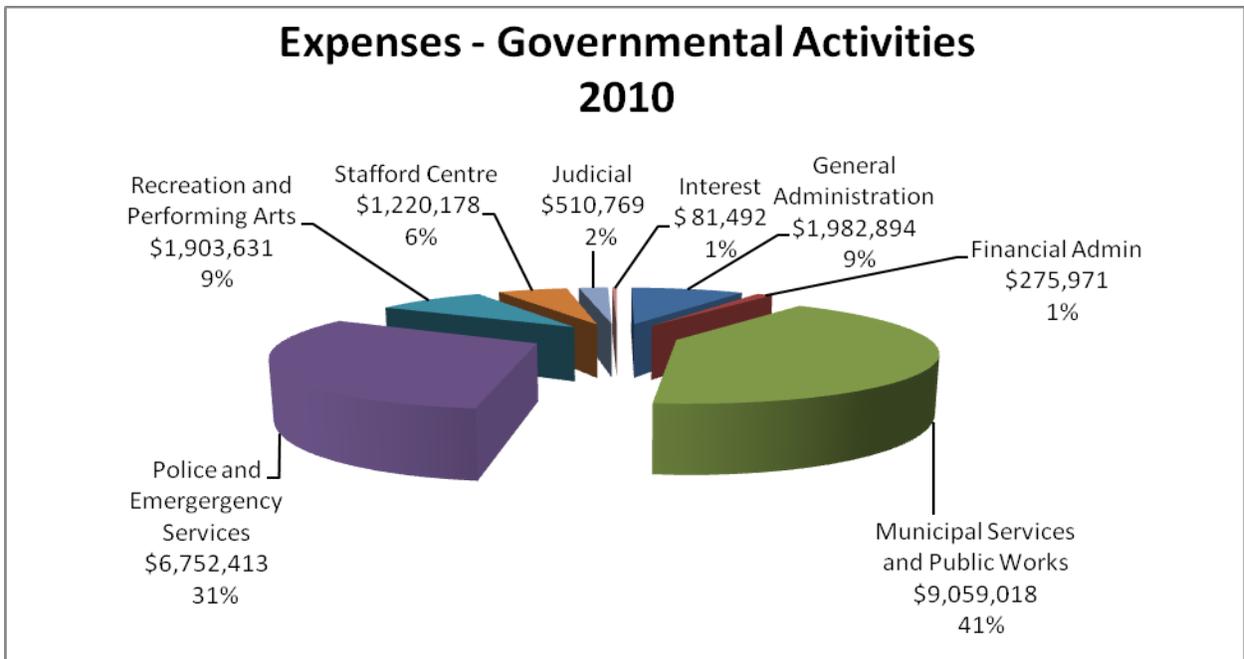
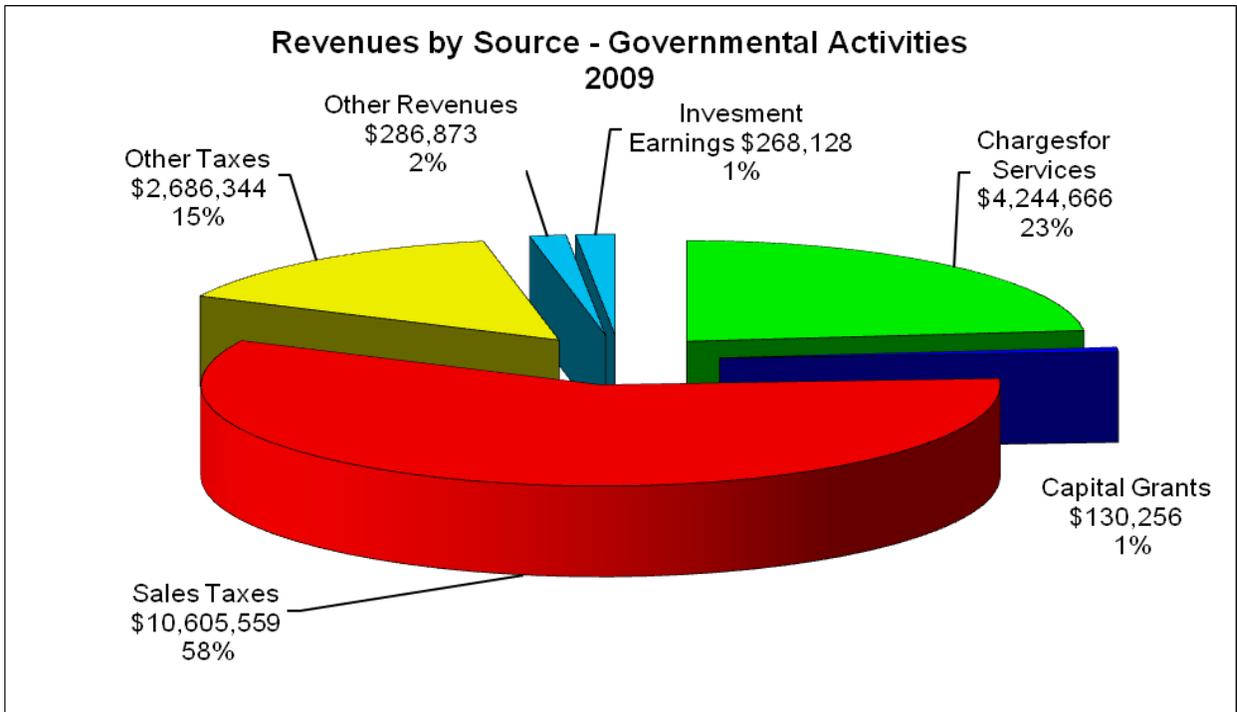
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CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

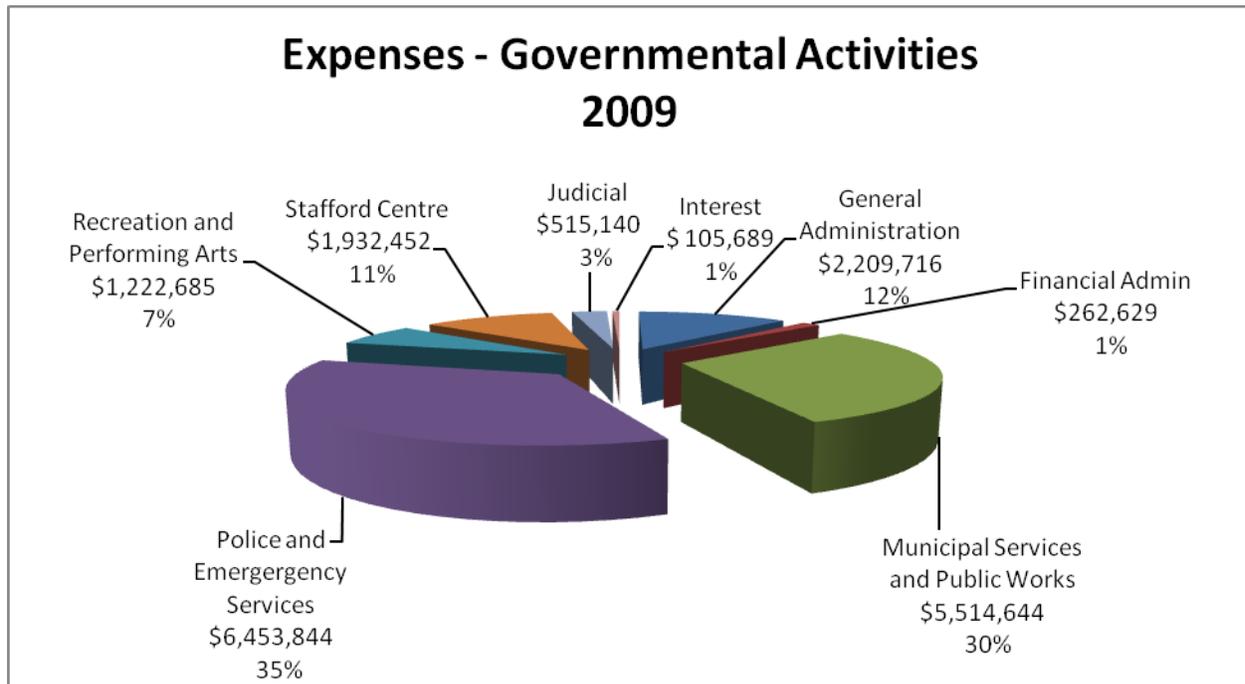
	Governmental Activities		Change	
	September 30,		Amount	Percent
	2010	2009		
Expenses:				
General administration	\$ 1,982,894	\$ 2,209,716	\$ (226,822)	(10.26%)
Financial administration	275,971	262,629	13,342	5.08%
Municipal services and public works	9,059,018	5,514,644	3,544,374	64.27%
Police and emergency services	6,752,413	6,453,844	298,569	4.63%
Recreation and performing arts	1,903,631	1,222,685	680,946	55.69%
Stafford Centre	1,220,178	1,932,452	(712,274)	(36.86%)
Judicial	510,769	515,140	(4,371)	(0.85%)
Interest on long-term debt	<u>81,492</u>	<u>105,689</u>	<u>(24,197)</u>	<u>(22.89%)</u>
Total expenses	<u>21,786,366</u>	<u>18,216,799</u>	<u>3,569,567</u>	<u>19.59%</u>
Increase in net assets	1,761,609	5,027	1,756,582	34942.95%
Net assets - October 1, (restated)	<u>72,091,369</u>	<u>72,086,342</u>	<u>5,027</u>	<u>0.01%</u>
Net assets - September 30,	<u>\$ 73,852,978</u>	<u>\$ 72,091,369</u>	<u>\$ 1,761,609</u>	<u>2.44%</u>



CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010



CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010



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 \$ 19,831,617. 74.79% of this total amount (\$ 14,832,325) 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 (\$ 15,844), 2) encumbrances (\$ 241,764) 3) debt service (\$ 749,959), 4) municipal services (\$ 191,958), 5) capital projects (\$ 371,891), 6) tourism (\$ 3,332,647), 7) municipal court security (\$ 5,932) and 8) municipal court technology (\$ 89,297). The General Fund balance decreased by \$ 110,932; Hotel Occupancy Tax Fund balance increased by \$ 204,915; Debt Service Fund balance decreased by \$ 295,246 and the Capital Projects Funds decreased by \$ 2,790,131. The non-major governmental funds fund balance decreased by \$ 14,306.

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, 2010 amounted to \$ 200,813 compared to a deficit net asset balance of \$ 568,463 at September 30, 2009. Total net assets increased \$ 385,649 primarily due to actual health claims being less than anticipated amounts.

CITY OF STAFFORD, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2010

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget resulted in a \$ 6,750,353 increase in appropriations; and can be summarized as follows:

- Increase in capital outlay as a result of Stafford/Staffordshire Road project and other road projects.

Capital Assets

The City of Stafford's investment in capital assets for its governmental activities as of September 30, 2010, amounts to \$ 58,757,249 (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

	Governmental Activities	
	September 30,	
	2010	2009
Land	\$ 4,948,125	\$ 4,948,125
Construction in progress	8,807,978	3,528,224
Buildings	24,143,908	24,935,672
Improvements other than buildings	1,855,386	913,223
Machinery and equipment	4,110,311	4,683,558
Infrastructure	<u>14,891,541</u>	<u>16,135,255</u>
Net capital assets	\$ <u>58,757,249</u>	\$ <u>55,144,057</u>

Additional information on the City of Stafford's capital assets can be found in Note 6 on pages 43 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 \$ 4,814,720. Of this amount, \$ 835,000 of general obligation bonded debt, \$ 275,000 of certificates of obligations, \$ 328,439 of capital leases, \$ 2,607,716 of excess sales tax liability, \$ 762,637 of compensated absences, and \$ 8,483 of accrued interest (component of long-term debt) backed by the full faith and credit of the City.

CITY OF STAFFORD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2010

Outstanding Long-Term Debt at Year End

	<u>Governmental Activities</u>	
	September 30,	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 835,000	\$ 1,025,000
Certificates of obligation	275,000	535,000
Capital leases payable	328,439	476,791
Sales tax obligation	2,607,716	2,726,237
Compensated absences - sick leave	762,637	701,516
Components of Long-Term Debt:		
Accrued interest payable	<u>5,928</u>	<u>8,483</u>
 Total	 <u>\$ 4,814,720</u>	 <u>\$ 5,473,027</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 45 through 49 of this report.

Economic Factors and Next Year’s Budgets and Rates

In the 2010-11 Budget, General Fund revenues are budgeted to decrease by approximately 20% from the 2009-10 budget year due to a projected decrease in grant revenues for street projects. Appropriations are budgeted to decrease by approximately 22% from the 2009-10 budget year due to the completion of certain street projects.

In preparing the 2010-11 budget, management considered certain economic factors including:

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

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, 2010

	Primary Government	Stafford Economic	Stafford Municipal
	Governmental Activities	Development	School District
Assets:			
Cash and cash equivalents	\$ 26,767,930	\$ 6,253,173	\$ 5,519,883
Receivables (Net of Allowance for Uncollectibles):			
Taxes	204,132		728,275
Due from other governments	2,190,065	777,661	1,995,877
Other	241,818		
Accrued interest			
Prepaid expenditures	4,523		
Inventories	15,842		
Deferred expenses			61,571
Capital Assets:			
Land	4,948,125		657,500
Construction in progress	8,807,978		
Buildings (net)	24,143,908		30,036,019
Improvements other than buildings (net)	1,855,386		
Machinery and equipment (net)	4,110,311		1,690,181
Infrastructure (net)	14,891,541		
Total assets	88,181,559	7,031,034	40,689,306
Liabilities:			
Accounts payable and accrued expenses	1,317,493	505,114	1,099,722
Due to primary government			595
Due to component units	207,223		
Deferred revenue	7,989,145		8,855
Long-term Liabilities:			
Due within one year	1,517,539	748,073	645,000
Due in more than one year	3,297,181	23,116,060	14,111,700
Total liabilities	14,328,581	24,369,247	15,865,872
Net Assets:			
Invested in capital assets, net of related debt	54,711,094		17,914,552
Restricted For:			
Debt service	744,031	104,561	1,274,599
Capital projects	412,796	552,811	
Tourism	3,332,647		
Other purposes	287,187		
Unrestricted	14,365,223	(17,995,585)	5,634,283
Total net assets	\$ 73,852,978	\$(17,338,213)	\$ 24,823,434

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, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grant and Contributions
Primary Government:			
Governmental Activities:			
General administration	\$ 1,982,894	\$ 5,815	\$
Finance administration	275,971	1,389	
Municipal services and public works	9,059,018	983,036	5,887,943
Police and emergency services	6,752,413	1,423,712	
Recreation and performing arts	1,903,631	1,629,832	
Stafford Centre	1,220,178		
Judicial	510,769	146,101	
Interest on long-term debt	81,492		
Total governmental activities	21,786,366	4,189,885	5,887,943
Component Units:			
Stafford Economic Development Corporation	4,750,910		
Stafford Municipal School District	31,295,340	773,937	5,018,956
Total component units	36,046,250	773,937	5,018,956
Total	\$ 57,832,616	\$ 4,963,822	\$ 10,906,899

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 (restated)

Net assets – ending

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

Net (Expense) Revenue and Changes in Net Assets			
Capital Grants and Contributions	Primary Government Governmental Activities	Stafford Economic Corporation	Stafford Municipal School
\$	\$(1,977,079)	\$	\$
	(274,582)		
545,494	(1,642,545)		
	(5,328,701)		
	(273,799)		
	(1,220,178)		
	(364,668)		
	(81,492)		
<u>545,494</u>	<u>(11,163,044)</u>	<u>-0-</u>	<u>-0-</u>
		(4,750,910)	
			<u>(25,502,447)</u>
<u>-0-</u>	<u>-0-</u>	<u>(4,750,910)</u>	<u>(25,502,447)</u>
<u>\$ 545,494</u>	<u>(11,163,044)</u>	<u>(4,750,910)</u>	<u>(25,502,447)</u>
	9,775,088	3,274,147	
	1,677,237		
	949,169		
	245,076	109,978	25,387,395
			16,470
			2,619,023
	<u>278,083</u>		<u>218,967</u>
	<u>12,924,653</u>	<u>3,384,125</u>	<u>28,241,855</u>
	1,761,609	(1,366,785)	2,739,408
	<u>72,091,369</u>	<u>(15,971,428)</u>	<u>22,084,026</u>
<u>\$ 73,852,978</u>	<u>\$(17,338,213)</u>	<u>\$ 24,823,434</u>	

CITY OF STAFFORD
BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2010

	General Fund	Hotel Occupancy Tax	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>						
Cash and cash equivalents	\$ 21,974,326	\$ 3,342,644	\$ 749,959	\$ 371,891	\$ 241,881	\$ 26,680,701
Receivables (Net of Allowance for Uncollectibles):						
Taxes	96,285	66,942		40,905		204,132
Due from other governments	2,190,065					2,190,065
Due from component units	40,879					40,879
Due from other funds	103,887				156,129	260,016
Prepaid expenses	4,521					4,521
Inventory	15,844					15,844
	<u>24,425,807</u>	<u>3,409,586</u>	<u>749,959</u>	<u>412,796</u>	<u>398,010</u>	<u>29,396,158</u>
Total assets						
<u>Liabilities and Fund Balances</u>						
<u>Liabilities:</u>						
Accounts payable	\$ 800,863				\$ 400	\$ 801,263
Accrued wages	224,865					224,865
Due to component units	248,102					248,102
Due to other funds	156,374	76,939			26,948	260,261
Deferred revenue	7,989,145			40,905		8,030,050
	<u>9,419,349</u>	<u>76,939</u>	<u>-0-</u>	<u>40,905</u>	<u>27,348</u>	<u>9,564,541</u>
Total liabilities						
<u>Fund Balance:</u>						
<u>Reserved For:</u>						
Inventory	15,844					15,844
Encumbrances	229,182				12,582	241,764
Debt service			749,959			749,959
Municipal services					191,958	191,958
Capital projects				371,891		371,891
Tourism		3,332,647				3,332,647
Municipal court security					5,932	5,932
Municipal court technology					89,297	89,297
<u>Unreserved:</u>						
<u>Designated:</u>						
Subsequent years expenditures					70,893	70,893
<u>Undesignated, Reported In:</u>						
General fund	14,761,432					14,761,432
	<u>15,006,458</u>	<u>3,332,647</u>	<u>749,959</u>	<u>371,891</u>	<u>370,662</u>	<u>19,831,617</u>
Total fund balances						
	<u>24,425,807</u>	<u>3,409,586</u>	<u>749,959</u>	<u>412,796</u>	<u>398,010</u>	<u>29,396,158</u>
Total liabilities and fund balances						

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, 2010

Total fund balances – governmental funds balance sheet	\$ 19,831,617
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 \$ 104,399,885 in assets less \$ 45,642,636 in accumulated depreciation.	58,757,249
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 (\$ 3,174,334 net of allowance for uncollectible accounts of \$ 2,935,594) of the general fund amounted to \$ 238,740.	238,740
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 \$ 40,905.	40,905
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(200,813)
Payables for general obligation bonds principal are not reported in the funds.	(1,110,000)
Payables for capital lease principal are not reported in the funds.	(328,439)
Payables for excess sales tax principal are not reported in the funds.	(2,607,716)
Payables for accrued interest related to long-term liabilities are not reported in the funds.	(5,928)
Payables for compensated absences - sick leave liabilities are not reported in the funds.	(<u>762,637</u>)
Net assets of governmental activities – statement of net assets.	\$ <u><u>73,852,978</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, 2010

	General	Hotel Occupancy Tax	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 11,368,138	\$ 833,906	\$ 200,000	\$ 450	\$	\$ 12,402,494
Licenses and permits	354,713					354,713
Fines and forfeitures	1,059,369				61,624	1,120,993
Fees and charges for services	1,901,500					1,901,500
Interest	177,803	40,280	16,089	7,192	3,320	244,684
Intergovernmental	4,941,850			1,615,904		6,557,754
Miscellaneous	165,646		50	70,000	42,387	278,083
Total revenues	<u>19,969,019</u>	<u>874,186</u>	<u>216,139</u>	<u>1,693,546</u>	<u>107,331</u>	<u>22,860,221</u>
Expenditures:						
Current:						
General administration	1,903,928					1,903,928
Financial administration	284,529					284,529
Municipal services and public works	4,402,721			3,336,649	4,266	7,743,636
Police and emergency services	6,325,042				19,002	6,344,044
Recreation and performing arts	406,091	608,239				1,014,330
Stafford Centre	1,220,178					1,220,178
Judicial	446,347				43,891	490,238
Capital outlay	4,803,425	61,032		1,147,028	25,866	6,037,351
Debt Service:						
Principal retirement	266,873		450,000			716,873
Interest and fiscal charges	22,662		61,385			84,047
Total expenditures	<u>20,081,796</u>	<u>669,271</u>	<u>511,385</u>	<u>4,483,677</u>	<u>93,025</u>	<u>25,839,154</u>
Excess (deficiency) of revenues over expenditures	(112,777)	204,915	(295,246)	(2,790,131)	14,306	(2,978,933)
Other Financing Sources (Uses):						
Proceeds from the sale of capital assets	1,845					1,845
Total other financing sources (uses)	<u>1,845</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,845</u>
Net changes in fund balances	(110,932)	204,915	(295,246)	(2,790,131)	14,306	(2,977,088)
Fund balances – beginning (restated)	15,117,390	3,127,732	1,045,205	3,162,022	356,356	22,808,705
Fund balances – ending	<u>\$ 15,006,458</u>	<u>\$ 3,332,647</u>	<u>\$ 749,959</u>	<u>\$ 371,891</u>	<u>\$ 370,662</u>	<u>\$ 19,831,617</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, 2010

Net change in fund balances – total governmental funds	\$(2,977,088)
 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 capital outlay \$ 6,037,351 exceeded net depreciation \$ 2,932,281 in the current period.	3,105,070
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 \$ 82,548.	82,548
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 \$(1,000).	(1,000)
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.	545,494
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 \$ 37,372	(37,372)
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 \$ 190,000; certificates of obligation of \$ 260,000, capital lease payments of \$ 148,352 and excess sales tax payments of \$ 118,521.	716,873
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 \$ 2,555 and the change in accrued compensated absences of \$ (61,120).	(58,565)
Internal service funds are used by management to charge the costs of health costs to individual funds. The net revenue of the internal service funds is reported in the governmental activities statement of activities.	<u>385,649</u>
Change in net assets of governmental activities	<u>\$ 1,761,609</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, 2010

	<u>Governmental Activities Internal Service Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 87,229
Other receivables	3,078
Prepaid expenses	<u>245</u>
Total assets	<u>90,552</u>
<u>Liabilities</u>	
Claims payable	<u>291,365</u>
Total liabilities	<u>291,365</u>
<u>Net Assets (Deficit)</u>	
Unrestricted	<u>(200,813)</u>
Total net assets (deficit)	<u>\$(200,813)</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, 2010

	Governmental Activities Internal Service Fund
Operating Revenues:	
Health insurance premiums	\$ <u>1,765,396</u>
Total operating revenues	<u>1,765,396</u>
Operating Expenses:	
Health claims	903,308
Administrative fees	<u>476,831</u>
Total operating expenses	<u>1,380,139</u>
Operating income (loss)	385,257
Non-Operating Revenues:	
Earnings on investments	<u>392</u>
Change in net assets	385,649
Net assets (deficit) - beginning	<u>(586,462)</u>
Net assets (deficit) - ending	<u><u>\$ (200,813)</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, 2010

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash received from premiums	\$ 1,804,711
Cash paid to other funds	(415,920)
Cash paid for claims	(846,504)
Cash paid for administrative fees	(476,831)
Net cash provided by operating activities	65,456
Cash Flows from Investing Activities:	
Interest received	392
Net increase in cash and cash equivalents	65,848
Cash and cash equivalents at the beginning of year	21,381
Cash and cash equivalents at the end of year	\$ 87,229
Reconciliation of Operating Income to Net Cash (Used) by	
Operating Income:	
Operating income	\$ 385,257
Operating Activities:	
Decrease in other receivables	39,315
Increase in claims payable	56,804
Decrease in due to general fund	(415,920)
Net cash provided by operating activities	\$ 65,456

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, 2010

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CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

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, 2010

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, 2010

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, 2010

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. The *General Fund* is made up of the City's General sub-fund and its Municipal Sales Tax sub-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, 2010

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, 2010, liabilities totaled \$ 291,365 and net assets (deficit) of the health insurance plan was \$(200,813).

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. 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 statement did not 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 statement did not 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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

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.

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 District's financial statements.

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement is effective immediately and had no effect on the District's financial statements.

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the District's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. The management of the District does not believe that the implementation of this statement will affect the financial statements of the District. This statement is effective for periods beginning after June 15, 2010.

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).

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$ 241,764 in outstanding encumbrances at September 30, 2010.

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.

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 \$ 762,637 as of September 30, 2010.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

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.

Cash and cash equivalents and current investments as reported on the statement of net assets at September 30, 2010 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>26,678,537</u>	<u>87,229</u>	<u>26,765,766</u>
Total cash and cash equivalents	<u>\$ 26,680,701</u>	<u>\$ 87,229</u>	<u>\$ 26,767,930</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, 2010, in addition to petty cash of \$ 2,164, the carrying amount of the City's cash, savings, and time deposits was \$ 26,765,766. The financial institutions balances were \$ 27,338,165 at September 30, 2010. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 27,088,165 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 112% of the financial institution balances at September 30, 2010.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

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.

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, 2010. 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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

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, 2010, and holds no direct investments in derivatives at September 30, 2010.

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, 2010 are as follows:

	<u>Governmental Activities</u>
Sales taxes	\$ 2,190,065
Franchise fees	96,285
Hotel occupancy tax	66,942
Special assessments	40,905
Stop loss receivable	3,078
Municipal court	<u>3,174,334</u>
Gross receivable	5,571,609
Allowance for doubtful accounts	<u>2,935,594</u>
Net receivable	<u>\$ 2,636,015</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, 2010 was \$ 2,935,594.

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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 4 - DEFERRED REVENUE - Continued

As of September 30, 2010, 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)	\$ 40,905	\$
Stafford Centre		237,118
Stafford/Staffordshire Road Project	<u>7,752,027</u>	<u> </u>
Total deferred/unearned revenue from governmental funds	<u>\$ 7,792,932</u>	<u>\$ 237,118</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2010 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>76,939</u>	\$ <u> </u>
Special Revenue Funds (Non-major):		
Court Efficiency Fund		7,335
Narcotic Seizure Fund	11,436	
Court Security Fund		5,931
Court Technology Fund		89,297
PD Fund	11,245	
Child Safety Fees		53,566
Participation, agreements and other	<u>4,267</u>	<u> </u>
	<u>26,948</u>	<u>156,129</u>
Internal Service Fund	<u> </u>	<u>245</u>
Total General Fund	<u>103,887</u>	<u>156,374</u>
Special Revenue Fund (Major):		
Hotel Occupancy Tax Fund:		
General Fund	<u> </u>	<u>76,939</u>

(continued)

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Special Revenue Funds (Non-major):		
General Fund:		
Court Efficiency Fund	\$ 7,335	\$
Narcotic Seizure Fund		11,436
Court Security Fund	5,931	
Court Technology Fund	89,297	
PD Fund		11,245
Child Safety Fees	53,566	
Participation, agreements and other		<u>4,267</u>
Total special revenue fund (non-major)	<u>156,129</u>	<u>26,948</u>
Internal Service:		
General Fund	<u>245</u>	
Total	<u>\$ 260,261</u>	<u>\$ 260,261</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, 2010.

NOTE 6 - CAPITAL ASSETS

Capital Asset Activity

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

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 4,948,125	\$	\$	\$ 4,948,125
Construction in progress	<u>3,528,224</u>	<u>5,393,210</u>	<u>113,456</u>	<u>8,807,978</u>
Total capital assets, not being depreciated	<u>8,476,349</u>	<u>5,393,210</u>	<u>113,456</u>	<u>13,756,103</u>
Capital Assets, Being Depreciated:				
Buildings	31,670,564			31,670,564
Improvements other than buildings	1,903,145	1,064,997		2,968,142
Machinery and equipment	10,380,793	238,094	37,372	10,581,515
Infrastructure	<u>45,423,561</u>			<u>45,423,561</u>
Total capital assets, being depreciated	<u>89,378,063</u>	<u>1,303,091</u>	<u>37,372</u>	<u>90,643,782</u>

(continued)

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS - Continued

Capital Asset Activity - Continued

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>
Accumulated Depreciation:				
Buildings	\$ 6,734,892	\$ 791,764	\$	\$ 7,526,656
Improvements other than buildings	989,922	122,834		1,112,756
Machinery and equipment	5,697,235	807,940	33,971	6,471,204
Infrastructure	<u>29,288,306</u>	<u>1,243,714</u>		<u>30,532,020</u>
 Total accumulated depreciation	 <u>42,710,355</u>	 <u>2,966,252</u>	 <u>33,971</u>	 <u>45,642,636</u>
 Total capital assets being depreciated, net	 <u>46,667,708</u>	 <u>(1,663,161)</u>	 <u>3,401</u>	 <u>45,001,146</u>
 Total capital assets, net	 <u>\$55,144,057</u>	 <u>\$ 3,730,049</u>	 <u>\$ 116,857</u>	 <u>\$58,757,249</u>
 Proceeds from sale of assets			\$ 1,845	
Basis in assets sold			<u>3,401</u>	
 Loss on disposal			<u>\$(1,556)</u>	

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

Governmental Activities:

General administration	\$ 108,669
Municipal services and public works	1,408,471
Police and emergency services	536,963
Recreation and performing arts	885,531
Judicial	<u>26,618</u>
 Total depreciation expense-governmental activities	 <u>\$ 2,966,252</u>

Construction in progress for various projects as of September 30, 2010 is as follows:

<u>Project</u>	<u>Contract</u> <u>Value</u>	<u>Expended</u> <u>To Date</u>	<u>Commitment</u>
Fifth Street Project	\$ 909,260	\$ 894,183	\$ 15,077
Stafford/Staffordshire Road	9,451,351	7,041,343	2,410,008
US 59 Monuments	555,555	457,364	98,191
Kirkwood Road	800,000	213,629	586,371
Generator Project	350,000	38,959	311,041
Brand Lane	<u>950,000</u>	<u>162,500</u>	<u>787,500</u>
	<u>\$ 13,016,166</u>	<u>\$ 8,807,978</u>	<u>\$ 4,208,188</u>

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 6 - CAPITAL ASSETS - Continued

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 was funded from the U.S. Department of Transportation's "Highway Planning and Construction Program" (CFDA # 20.205) through TXDOT. The agreement required 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 was subject to single audit requirements even though no federal funds were received directly by the City from this grant. As of September 30, 2010, the project is complete and the City has recognized \$ 1,615,904 of federal revenue during the year ended September 30, 2010 which brings the City's portion of federal reimbursements to \$ 8,000,000 for the total project.

Stafford/Staffordshire Road Project

In June 2009, the City entered into an agreement with the Texas Department of Transportation ("TXDOT") for the construction of Stafford/Staffordshire Road from Beltway 8 to 5th Street. 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 calls for the City to contribute a total of \$ 9,812,348 toward the road construction. The City has entered in an interlocal agreement with Harris County whereby Harris County will fund \$ 1,333,574 which will reduce the amount of total funding required by the City. The City has also entered in an interlocal agreement with Fort Bend County whereby Fort Bend County will fund \$ 4,500,000 which will reduce the amount of total funding required by the City. As of September 30, 2010 there is a total of \$ 8,909,116 which has been provided via the above agreements and has been recorded as cash with fiscal agent and is included in the cash and cash equivalents line item in the accompanying financial statements. The City's contribution counts towards the local matching requirements needed for federal funding, which was subject to single audit requirements even though no federal funds were received directly by the City from this grant. The city has recorded federal revenue for the project of \$ 4,189,331 for the year ended September 30, 2010.

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, 2010, the City had excess sales taxes collected of \$ 11,617,121 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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued

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, 2010:

	<u>Balance</u> <u>10/01/09</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/10</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 1,025,000	\$	\$ 190,000	\$ 835,000	\$ 200,000
Certificates of obligation	535,000		260,000	275,000	275,000
Capital leases payable	476,791		148,352	328,439	155,454
Sales tax obligation	2,726,237		118,521	2,607,716	118,520
Compensated absences - sick leave	701,515	725,233	664,111	762,637	762,637
Component of Long-term Debt:					
Accrued interest payable	<u>8,483</u>	<u>5,928</u>	<u>8,483</u>	<u>5,928</u>	<u>5,928</u>
	<u>\$ 5,473,026</u>	<u>\$ 731,161</u>	<u>\$ 1,389,467</u>	<u>\$ 4,814,720</u>	<u>\$ 1,517,539</u>

Long-term bonded debt at September 30, 2010 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>09/30/10</u>
General Obligation Bonds:			
Permanent Improvement Bonds, Series 2004	2.10-4.00%	2014	\$ 835,000
Certificate of Obligations, Series 2002	2.50-4.35%	2011	<u>275,000</u>
Total primary government			<u>\$ 1,110,000</u>

General obligation bonds and certificates of obligation transactions for the year ended September 30, 2010 are as follows:

Bonds outstanding, September 30, 2006	\$ 1,560,000
Maturities	<u>(450,000)</u>
Bonds outstanding, September 30, 2010	<u>\$ 1,110,000</u>

The City is in compliance with all significant bond limitations and restrictions contained in various bond orders. \$ 749,959 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, 2010, are shown below:

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued

Summary of Long-Term Debt Transactions - Continued

Years Ending September 30,	General Obligation Bonds			Certificates of Obligation		
	Totals	Principal	Interest	Totals	Principal	Interest
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>\$ 915,640</u>	<u>\$ 835,000</u>	<u>\$ 80,640</u>	<u>\$ 286,962</u>	<u>\$ 275,000</u>	<u>\$ 11,962</u>

Bonded Debt

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

Years Ending September 30,	Totals		
	Total	Principal	Interest
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>\$ 1,202,602</u>	<u>\$ 1,110,000</u>	<u>\$ 92,602</u>

Excess Sales Tax Liability

Excess sales tax liability at September 30, 2010 is comprised of the following:

Obligation	Interest Rate	Final Maturity	Outstanding 09/30/10
Excess Sales Tax:			
Excess sales tax collections	0.00%	2032	<u>\$ 2,607,716</u>

Excess sales tax liability transactions for the year ended September 30, 2010 are as follows:

Excess sales tax liability, September 30, 2009	\$ 2,726,237
Payments withheld from sales tax revenues	(118,521)
Excess sales tax liability, September 30, 2010	<u>\$ 2,607,716</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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued

Excess Sales Tax Liability - Continued

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

<u>Years Ending</u> <u>September 30,</u>	<u>Total</u>
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
2029	118,520
2030	118,521
2031	118,520
2032	<u>118,786</u>
Total	<u>\$ 2,607,716</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.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 7 - LONG-TERM DEBT - Continued

Federal Tax Compliance (Arbitrage) for Long-Term Debt

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, 2010, no arbitrage liability exists.

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 \$ 7,138 for the year ended September 30, 2010.

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 \$ 15,524 for the year ended September 30, 2010.

CITY OF STAFFORD

Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

NOTE 8 - LEASES - Continued

Capital Leases - Continued

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, 2010:

<u>Year Ended September 30,</u>	<u>Amount</u>
2011	\$ 171,014
2012	92,627
2013	<u>92,627</u>
Total minimum lease payments	356,268
Less amount representing interest	<u>(27,829)</u>
Net present value of minimum lease payments	<u>\$ 328,439</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>

NOTE 9 - RETIREMENT PLANS

Pension Trust Fund

The City, as an employer, participates as one of the 821 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 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. As an employer, the City's annual pension costs and contributions to the Pension Trust Fund for the years ended September 30, 2010, 2009 and 2008 were \$ 790,781, \$ 711,680, and \$ 648,110, respectively, which equaled the required contributions each year.

CITY OF STAFFORD
Stafford, Texas

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

NOTE 9 - RETIREMENT PLANS - Continued

Pension Trust Fund - Continued

The last actuarial valuation was conducted on December 31, 2009. A summary of actuarial assumptions and definitions can be found in the December 31, 2009 TMRS Comprehensive Annual Financial Report (CAFR).

Plan Provisions -

	<u>2007*</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
1) Total number of participating entities	827	827	829	829
City Specific:				
2) Employee deposit rate	6.0%	6.0%	7.0%	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>2007*</u>	<u>2007</u>	<u>2008</u>	<u>2009</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	29 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%	7.5%
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, 2010

NOTE 9 - RETIREMENT PLANS - Continued

Pension Trust Fund - Continued

Funding Information -

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets*** (a)</u>	<u>Actuarial Accrued Liability** (AAL)- (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Percentage Funded (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
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%
2009	14,309,760	19,066,206	4,756,446	75.1%	5,849,748	81.3%

** 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, 2010 were \$ 60,449. 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, 2010

NOTE 10 - SELF-INSURED HEALTH CARE

During the year ended September 30, 2010 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, 2010, the City has recorded current health claim short-term liabilities of \$ 291,365 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 2007-2008, 2008-2009, and 2009-2010 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>
2007-2008-Medical	\$ 128,029	\$ 1,379,606	\$ 1,325,827	\$ 181,808
2008-2009-Medical	181,808	986,468	933,715	234,561
2009-2010-Medical	234,561	903,308	846,504	291,365

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, 2010

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, 2010, the medical plan internal service fund has a deficit net assets of \$ 200,813.

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 2009-2010 annual billing to the SMSD for these City provided services was \$ 207,190, with \$ 21,855 recorded as a receivable as of September 30, 2010 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, 2010, the Stafford Economic Development Corporation contributed a total of \$ 545,494 to the City. Of this amount, \$ 374,132 related to the US 59 monument open space enhancement and \$ 171,362 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, 2010, 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, 2010

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 \$ 40,905 at September 30, 2010 and is expected to be collected in subsequent years. As of September 30, 2010, the entire balance was considered past due.

NOTE 17 - LITIGATION

On October 15, 2009, a civil action complaint was filed against the City in the United States District court for the Southern District of Texas (Houston). This potential claim arises from a shooting of a 19-year old by a City of Stafford police officer. The City's liability insurance carrier has assumed the defense of this lawsuit. There is currently no estimate available in regards to the possible outcome of this case. As noted, the City does carry liability insurance for specific matters such as are described in this case.

NOTE 18 - RESTATEMENT OF FUND BALANCE AND NET ASSETS

During the year ended September 30, 2010, it was determined that certain funds received in the prior year associated with the Stafford/Staffordshire project should have been deferred. As a result, the fund balance of the general fund, total governmental funds and total net assets has been restated as of September 30, 2009 as follows:

	<u>Fund Balance</u>		
	<u>General</u>	<u>Total</u>	<u>Net</u>
	<u>Fund</u>	<u>Governmental</u>	<u>Assets</u>
		<u>Funds</u>	
Balance at September 30, 2009	\$ 15,433,479	\$ 23,124,794	\$ 72,407,458
Deferred revenue increase at September 30, 2009	(316,089)	(316,089)	(316,089)
Balance at September 30, 2009 (restated)	<u>\$ 15,117,390</u>	<u>\$ 22,808,705</u>	<u>\$ 72,091,369</u>

NOTE 19 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 17, 2011, the date which the financial statements were available to be issued.

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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, 2010

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 12,180,000	\$ 11,132,000	\$ 11,368,138	\$ 236,138
Licenses and permits	372,000	365,000	354,713	(10,287)
Fines and fees	900,000	940,000	1,059,369	119,369
Fees and charges for services	1,908,935	1,947,000	1,901,500	(45,500)
Interest	379,980	193,800	177,803	(15,997)
Intergovernmental	1,422,680	8,412,953	4,941,850	(3,471,103)
Miscellaneous	115,000	120,500	165,646	45,146
Total revenues	<u>17,278,595</u>	<u>23,111,253</u>	<u>19,969,019</u>	<u>(3,142,234)</u>
Expenditures:				
Current:				
General administration	2,646,375	2,729,359	1,903,928	825,431
Financial administration	297,162	297,162	284,529	12,633
Municipal services and public works	4,576,852	4,664,127	4,402,721	261,406
Police and emergency services	6,604,336	6,894,758	6,325,042	569,716
Recreation and performing arts	501,669	531,850	406,091	125,759
Stafford Centre	1,200,000	1,200,000	1,220,178	(20,178)
Judicial	454,639	455,890	446,347	9,543
Capital outlay	5,641,361	11,899,601	4,803,425	7,096,176
Debt Service:				
Principal retirement	216,340	216,340	266,873	(50,533)
Interest and fiscal charges			22,662	(22,662)
Total expenditures	<u>22,138,734</u>	<u>28,889,087</u>	<u>20,081,796</u>	<u>8,807,291</u>
Excess (deficiency) of revenues over expenditures	<u>(4,860,139)</u>	<u>(5,777,834)</u>	<u>(112,777)</u>	<u>5,665,057</u>
Other Financing Sources (Uses):				
Proceeds from the sale of capital assets	10,000	10,000	1,845	(8,155)
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>1,845</u>	<u>(8,155)</u>
Net changes in fund balance	(4,850,139)	(5,767,834)	(110,932)	5,656,902
Fund balance - beginning (restated)	<u>15,117,390</u>	<u>15,117,390</u>	<u>15,117,390</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 10,267,251</u>	<u>\$ 9,349,556</u>	<u>\$ 15,006,458</u>	<u>\$ 5,656,902</u>

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, 2010

	Hotel Occupancy Tax			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Hotel occupancy taxes	\$ 926,250	\$ 926,250	\$ 833,906	\$(92,344)
Interest	<u>38,000</u>	<u>38,000</u>	<u>40,280</u>	<u>2,280</u>
Total revenues	<u>964,250</u>	<u>964,250</u>	<u>874,186</u>	<u>(90,064)</u>
Expenditures:				
Current:				
Recreation and performing arts	723,729	725,829	608,239	117,590
Capital outlay	<u>96,667</u>	<u>144,667</u>	<u>61,032</u>	<u>83,635</u>
Total expenditures	<u>820,396</u>	<u>870,496</u>	<u>669,271</u>	<u>201,225</u>
Excess (deficiency) of revenues over expenditures	143,854	93,754	204,915	111,161
Other Financing Sources (Uses):				
Total other financing sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u>-0-</u>
Net changes in fund balance	143,854	93,754	204,915	111,161
Fund balance - beginning	<u>3,127,732</u>	<u>3,127,732</u>	<u>3,127,732</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 3,271,586</u>	<u>\$ 3,221,486</u>	<u>\$ 3,332,647</u>	<u>\$ 111,161</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)
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%
2009	14,309,760	19,066,206	4,756,446	75.1%	5,849,748	81.3%

* 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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Taxes:				
City sales tax	\$ 10,225,000	\$ 9,407,000	\$ 9,575,088	\$ 168,088
Franchise fees	1,600,000	1,600,000	1,677,237	77,237
Mixed beverage tax	<u>125,000</u>	<u>125,000</u>	<u>115,813</u>	<u>(9,187)</u>
Total taxes	<u>11,950,000</u>	<u>11,132,000</u>	<u>11,368,138</u>	<u>236,138</u>
Licenses and Permits:				
Buildings and other permits	300,000	300,000	240,892	(59,108)
Fire marshal fees	5,000	5,000	93,700	88,700
Filing plat fees	<u>60,000</u>	<u>60,000</u>	<u>20,121</u>	<u>(39,879)</u>
Total licenses and permits	<u>365,000</u>	<u>365,000</u>	<u>354,713</u>	<u>(10,287)</u>
Fines and forfeitures	<u>940,000</u>	<u>940,000</u>	<u>1,059,369</u>	<u>119,369</u>
Fees and Charges for Services:				
Civic Center	150,000	150,000	162,285	12,285
Stafford Centre	1,200,000	1,200,000	1,220,178	20,178
Garbage collection fees	562,000	562,000	494,480	(67,520)
Recreation and swimming pool receipts	22,000	22,000	18,767	(3,233)
EMS fees	<u>13,000</u>	<u>13,000</u>	<u>5,790</u>	<u>(7,210)</u>
Total fees and charges for services	<u>1,947,000</u>	<u>1,947,000</u>	<u>1,901,500</u>	<u>(45,500)</u>
Interest earnings	<u>193,800</u>	<u>193,800</u>	<u>177,803</u>	<u>(15,997)</u>
Intergovernmental Revenues:				
Stafford Economic Development Corp.	225,000	225,000	228,288	3,288
Stafford Municipal School District	220,000	220,000	207,190	(12,810)
Fire call reimbursements	220,000	220,000	234,078	14,078
Fort Bend County	685,000	7,435,937		(7,435,937)
FEMA reimbursements			256	256
Federal grants		302,016	4,261,302	3,959,286
TX Dot Grant	<u></u>	<u>10,000</u>	<u>10,736</u>	<u>736</u>
Total intergovernmental revenues	<u>1,350,000</u>	<u>8,412,953</u>	<u>4,941,850</u>	<u>(3,471,103)</u>
Other Revenues:				
Miscellaneous	70,000	68,000	159,304	91,304
Sale of fixed assets	10,000	10,000	1,845	(8,155)
Reimbursements	<u>52,500</u>	<u>52,500</u>	<u>6,342</u>	<u>(46,158)</u>
Total other revenues	<u>132,500</u>	<u>130,500</u>	<u>167,491</u>	<u>36,991</u>
Total revenues	<u>\$ 16,878,300</u>	<u>\$ 23,121,253</u>	<u>\$ 19,970,864</u>	<u>\$ (3,150,389)</u>

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
General Administration:				
Mayor, City Council & Dept. Heads:				
Salaries and benefits	\$ 56,020	\$ 58,976	\$ 53,905	\$ 5,071
Operating expense	<u>10,230</u>	<u>10,230</u>	<u>14,052</u>	<u>(3,822)</u>
Total mayor, city council & dept. heads	<u>66,250</u>	<u>69,206</u>	<u>67,957</u>	<u>1,249</u>
General Government:				
Salaries and benefits	257,602	266,975	255,107	11,868
Professional and contract fees	454,800	454,800	382,860	71,940
Operating expense	282,359	289,179	128,660	160,519
Utilities	97,000	97,000	78,123	18,877
Other expense	<u>458,000</u>	<u>521,835</u>	<u>119,659</u>	<u>402,176</u>
Total general government	<u>1,549,761</u>	<u>1,629,789</u>	<u>964,409</u>	<u>665,380</u>
Promotion and Development:				
Other expenses	66,500	66,500	16,415	50,085
Garbage collection fees	558,435	558,435	487,965	70,470
Capital outlay	<u>35,000</u>	<u>35,000</u>	<u>15,000</u>	<u>20,000</u>
Total promotion and development	<u>659,935</u>	<u>659,935</u>	<u>519,380</u>	<u>140,555</u>
Television Production:				
Salaries and benefits	102,752	102,752	100,824	1,928
Operating expense	22,100	22,100	16,098	6,002
Utilities	93,000	93,000	90,420	2,580
Capital outlay	<u>31,350</u>	<u>36,565</u>	<u>28,522</u>	<u>8,043</u>
Total television production	<u>249,202</u>	<u>254,417</u>	<u>235,864</u>	<u>18,553</u>
Computer/IT Department:				
Salaries and benefits	131,927	131,927	129,765	2,162
Operating expense	32,450	27,000	9,935	17,065
Utilities	23,200	28,650	20,140	8,510
Capital outlay	<u>36,300</u>	<u>40,394</u>	<u>25,181</u>	<u>15,213</u>
Total computer/IT department	<u>223,877</u>	<u>227,971</u>	<u>185,021</u>	<u>42,950</u>
Total general administration	<u>2,749,025</u>	<u>2,841,318</u>	<u>1,972,631</u>	<u>868,687</u>

(continued)

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Financial Administration:				
Salaries and benefits	\$ 260,723	\$ 269,262	\$ 268,927	\$ 335
Operating expense	<u>36,439</u>	<u>27,900</u>	<u>15,602</u>	<u>12,298</u>
Total financial administration	<u>297,162</u>	<u>297,162</u>	<u>284,529</u>	<u>12,633</u>
Municipal Services and Public Works:				
Permits and Inspection Department:				
Salaries and benefits	475,282	498,737	488,315	10,422
Operating expense	66,455	45,000	24,895	20,105
Utilities (radios & mobile phone)	3,000	3,000	2,990	10
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>-0-</u>	<u>10,000</u>
Total permits and inspection department	<u>554,737</u>	<u>556,737</u>	<u>516,200</u>	<u>40,537</u>
Parks and Grounds Department:				
Salaries and benefits	722,584	780,309	711,285	69,024
Operating expense	92,000	112,000	99,271	12,729
Utilities	26,600	26,600	21,922	4,678
Capital outlay	<u>427,500</u>	<u>419,000</u>	<u>16,347</u>	<u>402,653</u>
Total parks and grounds department	<u>1,268,684</u>	<u>1,337,909</u>	<u>848,825</u>	<u>489,084</u>
Street Department:				
Salaries and benefits	1,008,645	1,072,146	1,012,076	60,070
Operating expense	740,165	681,214	735,606	(54,392)
Utilities	460,200	463,200	422,294	40,906
Other expense	80,000	80,000	63,900	16,100
Capital outlay	<u>4,538,186</u>	<u>10,747,812</u>	<u>4,401,987</u>	<u>6,345,825</u>
Total street department	<u>6,827,196</u>	<u>13,044,372</u>	<u>6,635,863</u>	<u>6,408,509</u>
Maintenance Department:				
Salaries and benefits	276,716	276,716	271,297	5,419
Operating expense	150,126	150,126	127,372	22,754
Capital outlay	<u>4,974</u>	<u>4,974</u>	<u>3,291</u>	<u>1,683</u>
Total maintenance department	<u>431,816</u>	<u>431,816</u>	<u>401,960</u>	<u>29,856</u>

(continued)

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Municipal Services and Public Works:				
Public Works:				
Salaries and benefits	\$ 374,245	\$ 386,159	\$ 366,230	\$ 19,929
Professional and contract fees	35,000	35,000	8,808	26,192
Operating expense	64,334	52,420	45,490	6,930
Utilities	1,500	1,500	970	530
Capital outlay	<u>44,130</u>	<u>44,130</u>		<u>44,130</u>
Total public works	<u>519,209</u>	<u>519,209</u>	<u>421,498</u>	<u>97,711</u>
Total municipal services and public works	<u>9,601,642</u>	<u>15,890,043</u>	<u>8,824,346</u>	<u>7,065,697</u>
Police and Emergency Services:				
Police Department:				
Salaries and benefits	4,464,311	4,680,793	4,456,432	224,361
Professional and contract fees	38,956	38,956	37,539	1,417
Operating expense	641,495	413,814	366,071	47,743
Utilities	126,241	137,741	136,346	1,395
Community relations	1,200	1,200	1,184	16
Capital outlay	<u>129,594</u>	<u>129,594</u>	<u>108,250</u>	<u>21,344</u>
Total police department	<u>5,401,797</u>	<u>5,402,098</u>	<u>5,105,822</u>	<u>296,276</u>
Fire Department:				
Salaries and benefits	859,771	868,128	743,574	124,554
Operating expense	224,275	239,617	231,270	8,347
Utilities	63,000	57,400	55,455	1,945
Capital outlay	<u>26,360</u>	<u>26,360</u>		<u>26,360</u>
Total fire department	<u>1,173,406</u>	<u>1,191,505</u>	<u>1,030,299</u>	<u>161,206</u>
Humane Department:				
Salaries and benefits	57,013	61,192	60,920	272
Professional and contract fees	29,231	29,231	12,000	17,231
Operating expense	10,279	5,900	3,820	2,080
Capita outlay	<u>112,500</u>	<u>112,500</u>		<u>112,500</u>
Total humane department	<u>209,023</u>	<u>208,823</u>	<u>76,740</u>	<u>132,083</u>

(continued)

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Police and Emergency Services:				
Fire Marshal:				
Salaries and benefits	\$ 74,802	\$ 77,152	\$ 75,211	\$ 1,941
Operating expense	12,462	10,112	8,644	1,468
Utilities	1,300	1,300	905	395
Capital outlay	<u>1,500</u>	<u>1,500</u>	<u> </u>	<u>1,500</u>
Total fire marshal	<u>90,064</u>	<u>90,064</u>	<u>84,760</u>	<u>5,304</u>
Health Authority:				
Salaries and benefits		101,910	98,227	3,683
Operating expenses		168,712	36,139	132,573
Utilities		<u>1,600</u>	<u>1,305</u>	<u>295</u>
Total health authority	<u>-0-</u>	<u>272,222</u>	<u>135,671</u>	<u>136,551</u>
Total police and emergency service	<u>6,874,290</u>	<u>7,164,712</u>	<u>6,433,292</u>	<u>731,420</u>
Recreation and Performing Arts:				
Stafford Civic Center:				
Salaries and benefits	72,238	74,854	68,296	6,558
Professional and contract fees	40,000	40,000	39,275	725
Operating expense	52,904	56,888	47,023	9,865
Utilities	35,500	35,500	29,874	5,626
Capital outlay	<u>96,667</u>	<u>152,553</u>	<u>61,032</u>	<u>91,521</u>
Total Stafford Civic Center	<u>297,309</u>	<u>359,795</u>	<u>245,500</u>	<u>114,295</u>
Stafford Centre:				
Other	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,220,178</u>	<u>(20,178)</u>
Total Stafford Centre	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,220,178</u>	<u>(20,178)</u>
Recreation Department:				
Salaries and benefits	3,830	3,830	928	2,902
Professional and contract fees	61,000	61,000	25,971	35,029
Other expense	<u>30,000</u>	<u>37,500</u>	<u>29,817</u>	<u>7,683</u>
Total recreation department	<u>94,830</u>	<u>102,330</u>	<u>56,716</u>	<u>45,614</u>

(continued)

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES: (Continued)				
Recreation and Performing Arts:				
Municipal Pool:				
Salaries and benefits	\$ 59,747	\$ 59,747	\$ 48,339	\$ 11,408
Operating expense	55,600	55,600	50,804	4,796
Utilities	90,850	90,850	65,764	25,086
Capital outlay	<u>147,300</u>	<u>155,300</u>	<u>143,815</u>	<u>11,485</u>
Total municipal pool	<u>353,497</u>	<u>361,497</u>	<u>308,722</u>	<u>52,775</u>
Total recreation and performing arts	<u>1,945,636</u>	<u>2,023,622</u>	<u>1,831,116</u>	<u>192,506</u>
Judicial:				
Salaries and benefits	416,998	430,479	425,754	4,725
Professional and contract fees	5,000	5,000	2,980	2,020
Operating expense	<u>32,641</u>	<u>20,411</u>	<u>17,613</u>	<u>2,798</u>
Total judicial	<u>454,639</u>	<u>455,890</u>	<u>446,347</u>	<u>9,543</u>
Debt Service:				
Principal retirement	216,340	216,340	266,873	(50,533)
Interest and fiscal charges	<u> </u>	<u> </u>	<u>22,662</u>	<u>(22,662)</u>
Total debt service	<u>216,340</u>	<u>216,340</u>	<u>289,535</u>	<u>(73,195)</u>
Total expenditures	<u>\$ 22,138,734</u>	<u>\$ 28,889,087</u>	<u>\$ 20,081,796</u>	<u>\$ 8,807,291</u>

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CITY OF STAFFORD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Special Revenue			
	Courts Efficiency Fund	Narcotic Seizure Fund	Court Security Fund	Court Technology Fund
<u>Assets</u>				
Cash and cash equivalents	\$	\$ 32,880	\$	\$
Due from other funds	7,335		5,932	89,297
Total assets	7,335	32,880	5,932	89,297
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable				
Due to other funds		11,436		
Total liabilities	-0-	11,436	-0-	-0-
<u>Fund Balances:</u>				
<u>Reserved:</u>				
Encumbrances				
Municipal services				
Municipal court security			5,932	
Municipal court technology				89,297
<u>Unreserved:</u>				
Designated for future year's expenditures	7,335	21,444		
Total fund balances	7,335	21,444	5,932	89,297
Total liabilities and fund balances	\$ 7,335	\$ 32,880	\$ 5,932	\$ 89,297

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
\$ 53,565	\$ 12,376	\$ 196,625	\$ 241,881
<u>53,565</u>	<u>12,376</u>	<u>196,625</u>	<u>156,129</u>
<u>53,565</u>	<u>12,376</u>	<u>196,625</u>	<u>398,010</u>
		400	400
	<u>11,245</u>	<u>4,267</u>	<u>26,948</u>
<u>-0-</u>	<u>11,245</u>	<u>4,667</u>	<u>27,348</u>
12,582			12,582
		191,958	191,958
			5,932
			89,297
<u>40,983</u>	<u>1,131</u>	<u> </u>	<u>70,893</u>
<u>53,565</u>	<u>1,131</u>	<u>191,958</u>	<u>370,662</u>
<u>\$ 53,565</u>	<u>\$ 12,376</u>	<u>\$ 196,625</u>	<u>\$ 398,010</u>

CITY OF STAFFORD

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

For the Year Ended September 30, 2010

	Special Revenue			
	Courts Efficiency Fund	Narcotic Seizure Fund	Court Security Fund	Court Technology Fund
Revenues:				
Fines and forfeitures	\$ 2,951	\$	\$ 24,163	\$ 34,510
Investment income		422		
Miscellaneous	<u> </u>	<u>4,834</u>	<u> </u>	<u> </u>
Total revenues	<u>2,951</u>	<u>5,256</u>	<u>24,163</u>	<u>34,510</u>
Expenditures:				
Current:				
Municipal services and public works				
Police and emergency services		7,757		
Judicial	2,519		26,305	15,067
Capital outlay	<u> </u>	<u>10,629</u>	<u> </u>	<u>15,237</u>
Total expenditures	<u>2,519</u>	<u>18,386</u>	<u>26,305</u>	<u>30,304</u>
Excess (deficiency) of revenues over expenditures	432	(13,130)	(2,142)	4,206
Other Financing Sources (Uses):				
Total other financial sources (uses)	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balances	432	(13,130)	(2,142)	4,206
Fund balances – beginning	<u>6,903</u>	<u>34,574</u>	<u>8,074</u>	<u>85,091</u>
Fund balances - ending	<u>\$ 7,335</u>	<u>\$ 21,444</u>	<u>\$ 5,932</u>	<u>\$ 89,297</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
\$	\$	\$	\$
	171	2,727	61,624
<u>25,202</u>	<u> </u>	<u>12,351</u>	<u>3,320</u>
<u>25,202</u>	<u>171</u>	<u>15,078</u>	<u>42,387</u>
		4,266	4,266
	11,245		19,002
			43,891
			<u>25,866</u>
<u>-0-</u>	<u>11,245</u>	<u>4,266</u>	<u>93,025</u>
25,202	(11,074)	10,812	14,306
			<u>-0-</u>
25,202	(11,074)	10,812	14,306
<u>28,363</u>	<u>12,205</u>	<u>181,146</u>	<u>356,356</u>
<u>\$ 53,565</u>	<u>\$ 1,131</u>	<u>\$ 191,958</u>	<u>\$ 370,662</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 200,000	\$ 200,000	\$ 200,000	\$ -0-
Interest	18,000	18,000	16,089	(1,911)
Miscellaneous	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
Total revenues	<u>218,000</u>	<u>218,000</u>	<u>216,139</u>	<u>(1,861)</u>
Expenditures:				
Debt Service:				
Principal	450,000	450,000	450,000	-0-
Interest and fiscal charges	<u>61,385</u>	<u>61,385</u>	<u>61,385</u>	<u>-0-</u>
Total expenditures	<u>511,385</u>	<u>511,385</u>	<u>511,385</u>	<u>-0-</u>
Excess (deficiency) of revenues over expenditures	<u>(293,385)</u>	<u>(293,385)</u>	<u>(295,246)</u>	<u>(1,861)</u>
Net changes in fund balance	(293,385)	(293,385)	(295,246)	(1,861)
Fund balance - beginning	<u>1,045,205</u>	<u>1,045,205</u>	<u>1,045,205</u>	<u>-0-</u>
Fund balance - ending	<u>\$ 751,820</u>	<u>\$ 751,820</u>	<u>\$ 749,959</u>	<u>\$ (1,861)</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, 2010

<u>Date of Issue</u>	<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amount Outstanding 9/30/09</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 9/30/10</u>
02-01-02	Certificate of Obligations, Series 2002	2.50-4.35%	\$ 2,250,000	\$ 535,000	\$	\$ 260,000	\$ 275,000
06-01-04	Permanent Improvement Bonds, Series 2004	2.10-4.00%	<u>1,700,000</u>	<u>1,025,000</u>	<u> </u>	<u>190,000</u>	<u>835,000</u>
			<u>\$ 8,650,000</u>	<u>\$ 1,560,000</u>	<u>\$ -0-</u>	<u>\$ 450,000</u>	<u>\$ 1,110,000</u>

CITY OF STAFFORD

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

September 30, 2010

Year Ending 09/30	Total Annual Requirements			Certificate of Obligation Series 2002	
	Total	Principal	Interest	Principal	Interest
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>\$ 1,202,602</u>	<u>\$ 1,110,000</u>	<u>\$ 92,602</u>	<u>\$ 275,000</u>	<u>\$ 11,962</u>

Permanent Improvement
Bonds, Series 2004

<u>Principal</u>	<u>Interest</u>
\$ 200,000	\$ 31,150
200,000	24,150
215,000	16,750
<u>220,000</u>	<u>8,590</u>
<u>\$ 835,000</u>	<u>\$ 80,640</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 17, 2011

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

We have audited the basic financial statements of the City of Stafford, Texas (the "City") as of and for the years ended September 30, 2010 and have issued our report thereon dated February 17, 2011. We conducted our audits 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 deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 or a significant deficiency, as defined above.

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To the Honorable Mayor and
Members of City Council
City of Stafford
February 17, 2011
Page 2

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, 2010, no instances of noncompliance were found.

We noted certain matters that we reported to management of the City, in a separate letter dated February 17, 2011.

This report is intended solely for the information and use of management, the mayor, members of city 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 & Hunsford, LLC

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Independent Auditor's Report

Report on Compliance with Requirements That Would Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133

February 17, 2011

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

Compliance

We have audited the compliance of the City of Stafford, Texas (the "City"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

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To the Honorable Mayor and
Members of City Council
City of Stafford
February 17, 2011
Page 2

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the mayor, members of city 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.

Kennebec, Masters & Hunsford, LLC

CITY OF STAFFORD

Stafford, Texas

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings, which are required to be reported under Sec._510(a):
No.
7. Major programs include:

Department of Transportation:

20.205 Highway Planning and Construction – US90A.

20.205 Highway Planning and Construction – Stafford/Staffordshire Road.

8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.
9. Low risk auditee: No.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

III. Findings and questioned costs related to the federal awards.

The audit disclosed no findings required to be reported.

CITY OF STAFFORD
Stafford, Texas

Schedule of Status of Prior Findings
Year Ended September 30, 2010

PRIOR YEAR'S FINDING/NONCOMPLIANCE

N/A.

CITY OF STAFFORD
Stafford, Texas

Corrective Action Plan
Year Ended September 30, 2010

None.

CITY OF STAFFORD
Stafford, Texas

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures Indirect Costs or Award Amount</u>
<u>U. S. Department of Transportation</u>			
Passed through the Texas Department of Transportation			
Highway Planning and Construction Step Program	20.205	CSJ 0027-08-144 CSJ 0912-72-246	\$ 1,615,904 <u>4,189,331</u>
			5,805,235
2007 Texas Traffic Safety Program	20.600		<u>10,737</u>
TOTAL DEPARTMENT OF TRANSPORTATION			\$ <u>5,815,972</u>
<u>U.S.Department of Homeland Security</u>			
Passed through the Federal Emergency Management Agency			
Public Assistance Grants	97.036	FEMA TX 1791	256
Passed through the Texas Department of Public Safety's Division of Emergency Management			
Hazard Mitigation Grant	97.036	FEMA DR-1791-031	27,270
Regional Catastrophe Preparedness Grant (RCPGP)	97.111	2008-CP-T8-0023	<u>44,701</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY			\$ <u>72,227</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>5,888,199</u>

See notes to supplement Schedule of Expenditures of Federal Awards.

CITY OF STAFFORD
Stafford, Texas

Notes on Accounting Policies for Federal Awards
Year Ended September 30, 2010

1. The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designated to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources. Funds are classified into two categories: governmental and proprietary.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

3. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
4. Matching Expenses – Certain grants require local matching expenditures. Matching expenses for the years ended September 30, 2009 through 2010 were as follows:

	Pass-Through Grantor's Number	Program Matching Required	Direct Matching Expenses Years Ended September 30,		
			2009 & Prior	2010	Total
Highway Planning and Construction Step program	CSJ 0027-08-144	\$ 8,000,000	\$ 6,384,096	\$ 1,615,904	\$ 8,000,000
Highway Planning and Construction Step program	CSJ 0912-72-246	8,478,774		4,189,331	4,189,331
Hazard Mitigation Grant	FEMA TX 1791	85,793		9,090	9,090
Regional Catastrophe Preparedness Grant	2008-CP-T8-0023	11,175		11,175	11,175
		<u>\$ 16,575,732</u>	<u>\$ 6,384,096</u>	<u>\$ 5,825,500</u>	<u>\$ 12,209,596</u>

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