

CITY OF STAFFORD, TEXAS
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2012
with Report of Independent Auditors

CITY OF STAFFORD, TEXAS
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INTRODUCTORY SECTION

CITY OF STAFFORD, TEXAS
PRINCIPAL OFFICIALS

Elected Officials

Leonard Scarcella	Mayor
Robert Sorbet	Mayor Pro-Tem
Wen Guerra	Council Member
Ken Mathew	Council Member
Fred Woolridge	Council Member
Felecia Evans-Smith	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/ Zoning Administrator
Carolyn Entricht	Director of Television Production
Bonny Krahn	Chief of Police
Nicole Nguyen	Director of Municipal Court
Susan Ricks	Contract Administrator Stafford Centre and Director of Civic Center and Recreation
Charles Russell	City Engineer

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

To The Honorable Mayor and
Members of City Council
City of 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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's 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 which reflects 90% of total assets and 90% 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. 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, based on our audit and the report of other auditors, 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 as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To The Honorable Mayor and
Members of City Council
City of Stafford, Texas
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Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 to 10, and the budgetary schedules and retirement system information on pages 50 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund statements and schedules and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund statements and schedules and other supplementary information are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

Houston, Texas
February 6, 2013

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Stafford (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City'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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event to the change occurs, *regardless of 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 other 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.

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's two discretely presented component units consist of the following: Stafford Economic Development Corporation and Stafford Municipal School District.

The government-wide financial statements can be found on pages 13 through 15 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.

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 *near-term inflows and outflows 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 provide 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 Fund, the Hotel Occupancy Tax Special Revenue Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data for the other eight (8) 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.

The governmental funds financial statements can be found on pages 16 through 23 of 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 24 through 26 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 46 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* -- Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for both the 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 50 through 53 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 56 through 60 of this report.

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 \$79.3 million as of September 30, 2012.

By far the largest portion of the City's net assets, 79 percent 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. The City uses capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED SCHEDULE OF NET ASSETS

September 30, 2012 and 2011

	Governmental Activities		Change	
	2012	2011	Amount	Percent
Current and other assets	\$ 20,789,267	\$ 21,912,280	\$ (1,123,013)	-5%
Capital assets	64,458,951	65,857,867	(1,398,916)	-2%
Total Assets	85,248,218	87,770,147	(2,521,929)	-3%
Current and other liabilities	1,217,229	1,417,753	(200,524)	-14%
Long-term liabilities	5,416,130	4,608,173	807,957	18%
Total Liabilities	6,633,359	6,025,926	607,433	10%
Net assets:				
Invested in capital assets, net of related debt	62,207,226	65,049,900	(2,842,674)	-4%
Restricted	4,685,188	4,457,227	227,961	5%
Unrestricted	11,722,445	12,237,094	(514,649)	-4%
Total Net Assets	\$ 78,614,859	\$ 81,744,221	\$ (3,129,362)	-4%

An additional 6-percent portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$11.7 million may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2012, the City is able to report positive balances in all three categories of net assets.

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The following table provides a summary of the City's operations for the year ended September 30, 2012:

CONDENSED SCHEDULE OF CHANGES IN NET ASSETS

For the Years Ended September 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Change</u>	
	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>Percent</u>
Revenues				
Program revenue:				
Charges for services	\$ 4,507,453	\$ 4,541,279	\$ (33,826)	-1%
Operating grants and contributions	45,237	240,765	(195,528)	-81%
Capital grants and contributions	290,216	10,981,363	(10,691,147)	-97%
General revenues:				
Sales and use taxes	10,952,700	10,143,107	809,593	8%
Other taxes	2,892,481	2,744,922	147,559	5%
Unrestricted investment earnings	43,649	162,972	(119,323)	-73%
Miscellaneous	71,511	59,601	11,910	20%
Loss on disposal of assets				
Total Revenues	<u>18,803,247</u>	<u>28,874,009</u>	<u>(10,070,762)</u>	<u>-35%</u>
Expenses:				
General Administration	2,919,922	2,882,236	37,686	1%
Finance Administration	291,134	282,839	8,295	3%
Police and Emergency Services	7,159,460	7,090,006	69,454	1%
Municipal Services & Public works	7,964,052	6,043,969	1,920,083	32%
Recreation and performing arts	1,446,811	1,573,187	(126,376)	-8%
Stafford Centre	1,672,207	1,652,140	20,067	1%
Judicial	420,636	460,768	(40,132)	-9%
Interest on long-term debt	58,389	55,276	3,113	6%
Total Expenses	<u>21,932,611</u>	<u>20,040,421</u>	<u>1,892,190</u>	<u>9%</u>
Change in net assets	(3,129,364)	8,833,588	(11,962,952)	-135%
Net Assets - Beginning, as restated	<u>81,744,221</u>	<u>72,910,633</u>	<u>8,833,588</u>	<u>12%</u>
Net Assets - Ending	<u>\$78,614,859</u>	<u>\$81,744,221</u>	<u>\$ (3,129,362)</u>	<u>-4%</u>

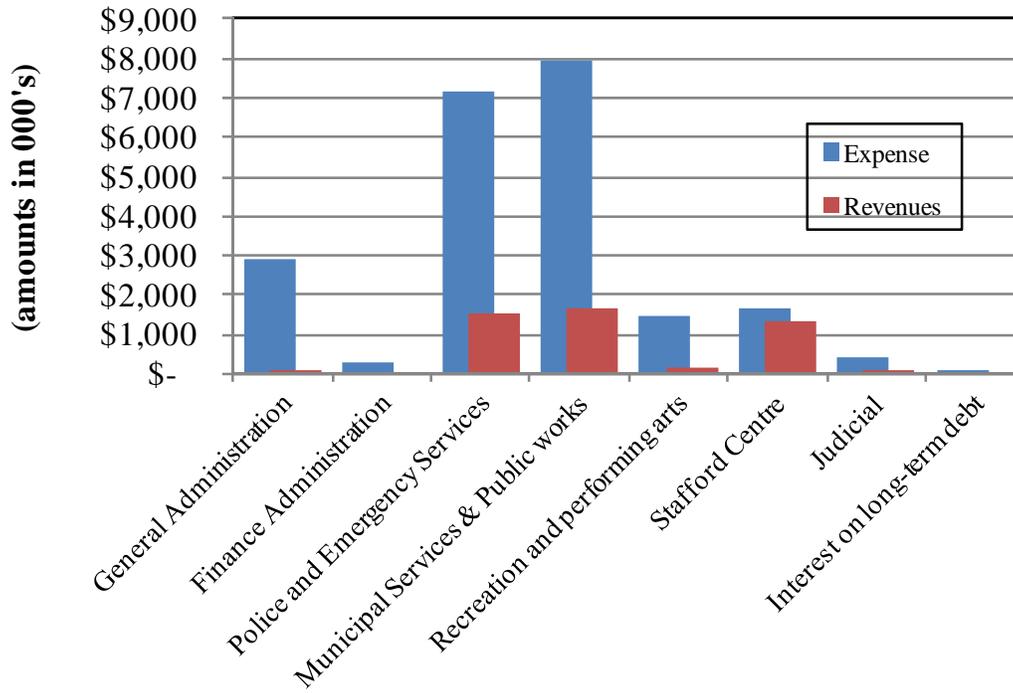
Governmental activities

Governmental activities decreased the City's net assets by approximately \$3.1 million or 4% of beginning net assets. The key elements of this decrease are as follows:

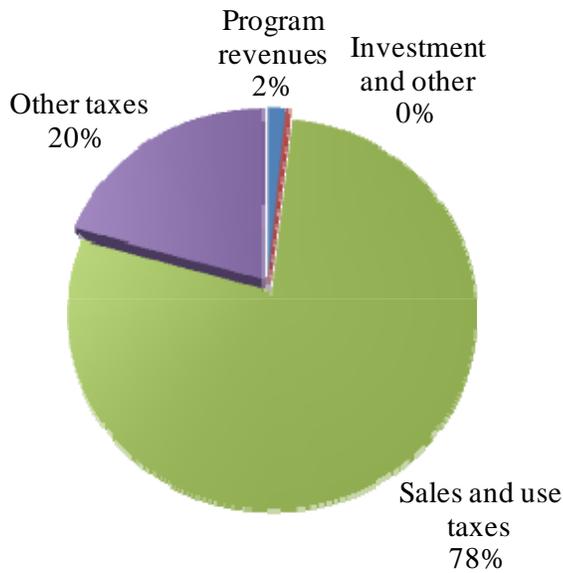
- Capital grants and contributions decreased by approximately \$10.7 million due primarily to contributions from other governmental entities for the completion of the Stafford/Staffordshire Road project that were received in 2011. The contributions represented the completion of the project and transfer of ownership of the road to the City of Stafford and were therefore not recurring.
- Expenses related to municipal services and public works increased by \$1.9 million. This increase is the product of a capital lease for the purchase of two (2) pumper trucks and one (1) brush truck for the Fire Department.

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:



CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18.9 million. A portion of the fund balance (\$5.1 million) is restricted by law or third-party agreements and is not available for general governmental expenditures. The remainder of the governmental fund balance of \$13.8 million is available for any lawful purpose.

The General Fund balance increased by \$0.6 million in the current fiscal year primarily due to an increase in sales tax receipts.

Capital Projects Fund saw a decrease of \$2.5 million due to a repayment of prior-year overpayments to the Texas Department of Transportation for the US90A project, which was transferred to the SEDC in the current year.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements.

Unrestricted net assets at September 30, 2012, amounted to \$315,847 compared to a net asset balance of \$3,203 at September 30, 2011. Total net assets increased \$312,644 .

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a increase in appropriations. This increase was primarily due an increase in general fund expenditures for the Stafford Centre and an agreement with Missouri City to fund a portion of the construction of Missouri City's animal shelter, in which the City of Stafford houses stray/abandoned animals. Other increases included amending the budget for encumbrances from the prior year as well as increasing and or decreasing individual line items to meet the needs of the departments.

CITY OF STAFFORD, TEXAS**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****Capital Assets and Debt Administration**

The City's investment in capital assets for its governmental activities as of September 30, 2012, amounted to \$64.5 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure.

The following table shows the balances at September 30, 2011 and 2012:

	<u>2011</u>	<u>2012</u>
Capital Assets not being depreciated		
Land	\$ 4,948,125	\$ 4,948,125
Construction in progress	17,090,019	388,915
Capital Assets, net of depreciation		
Buildings	23,352,145	22,560,381
Improvements other than buildings	1,641,799	1,506,142
Machinery and equipment	3,950,043	4,557,345
Infrastructure	<u>14,875,736</u>	<u>30,498,043</u>
Total capital assets - Governmental Activities	<u>\$ 65,857,867</u>	<u>\$ 64,458,951</u>

Additional information on the City's capital assets can be found in Note 7 on page 36 of this report.

Long-term liabilities

At the end of the current fiscal year, the City had a total long-term debt liability of \$4.7 million. This is an increase from the prior year of approximately \$700,000, primarily due to a capital lease to purchase two (2) pumper trucks and one (1) brush truck for the Fire Department. The entire amount of bonded debt is backed by the full-faith and credit of the City. A schedule of long-term debt at September 30, 2011 and 2012 follows:

	<u>2011</u>	<u>2012</u>
General obligation bonds	\$ 635,000	\$ 435,000
Capital leases payable	172,967	1,117,172
Sales Tax obligations	2,489,196	2,370,675
Compensated absences - sick leave	727,432	793,730
Net pension obligation, as restated	<u>583,578</u>	<u>699,553</u>
	<u>\$ 4,608,173</u>	<u>\$ 5,416,130</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's long-term debt can be found in Note 8 on page 37 of this report.

CITY OF STAFFORD, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Rates

In the 2012-13 Budget, General Fund revenues are budgeted to increase by approximately 1% from the 2011-12 budget year primarily due to a budgeted increase in sales tax and an anticipated increase in Stafford Centre revenues. Appropriations are budgeted to decrease by approximately 1% from the 2011-12 budget year due to the completion of certain street projects.

In preparing the 2012-13 budget, management considered certain economic factors including:

- Increase in salary to all full-time employees
- Sales tax realization
- Ongoing street repair projects

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.

BASIC FINANCIAL STATEMENTS

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CITY OF STAFFORD, TEXAS

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Primary Government</u>	<u>Stafford Economic Development Corporation</u>	<u>Stafford Municipal School District</u>
	<u>Governmental Activities</u>		
Assets			
Cash and cash equivalents	\$ 17,381,875	\$ 10,176,712	\$ 41,983,909
Receivables (Net of Allowance for Uncollectibles)	3,396,705	676,401	1,210,909
Inventories	10,687		
Deferred expenses			564,239
Capital assets, not subject to depreciation:			
Land	4,948,125		657,500
Construction in progress	388,915		18,231,882
Capital assets, net of depreciation:			
Infrastructure	30,498,043		
Buildings and improvements	24,066,523		27,872,896
Machinery and equipment	4,557,345		3,133,496
Total Capital Assets	<u>64,458,951</u>		<u>49,895,774</u>
Total Assets	<u>85,248,218</u>	<u>10,853,113</u>	<u>93,654,831</u>
Liabilities			
Accounts payable and accrued expenses	849,459	142,875	2,761,177
Due to component units	7,584		394,162
Unearned revenues	360,186		6,434
Long-term liabilities:			
Due within one year	602,866	744,332	1,242,391
Due in more than one year	4,813,264	21,642,396	63,257,258
Total Liabilities	<u>6,633,359</u>	<u>22,529,603</u>	<u>67,661,422</u>
Net Assets			
Invested in capital assets, net of related debt	62,207,226		12,948,136
Restricted for:			
Debt service	32,374		1,358,864
Municipal courts	126,703		
Public safety	79,695		
Community projects	296,244		
Tourism	4,150,172		
Unrestricted	11,722,445	(11,676,490)	11,686,409
Total Net Assets	<u>78,614,859</u>	<u>\$ (11,676,490)</u>	<u>\$ 25,993,409</u>

See Notes To Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General Administration	\$ 2,919,922	\$ 55,664	\$ 30,019	\$
Finance Administration	291,134			
Police and Emergency Services	7,159,460	1,495,149	15,218	
Municipal Services & Public works	7,964,052	1,378,698		290,216
Recreation and performing arts	1,446,811	174,783		
Stafford Centre	1,672,207	1,356,029		
Judicial	420,636	47,130		
Interest on long-term debt	58,389			
Total governmental activities	21,932,611	4,507,453	45,237	290,216
Component Units				
Stafford Economic Development Corporation	1,917,164			2,621,094
Stafford Municipal School District	32,081,144	646,544	4,455,959	
Total component units	33,998,308	646,544	4,455,959	2,621,094
Total	\$ 55,930,919	\$ 5,153,997	\$ 4,501,196	\$ 2,911,310

General revenues:

Taxes:

Sales tax

Franchise taxes

Occupancy and other taxes

Property taxes

Unrestricted investment earnings

Grants and contributions not restricted

Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning, as restated

Net Assets - Ending

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government	Stafford Economic Development Corporation	Stafford Municipal School District
Governmental Activities		
\$ (2,834,239)		
(291,134)		
(5,649,093)		
(6,295,138)		
(1,272,028)		
(316,178)		
(373,506)		
(58,389)		
<u>(17,089,705)</u>		
	\$ 703,930	\$ (26,978,641)
	<u>703,930</u>	<u>(26,978,641)</u>
\$ (17,089,705)	\$ 703,930	\$ (26,978,641)
10,952,700	3,630,725	
1,755,223		
1,137,258		
		23,815,190
43,649	27,903	60,652
		3,129,716
<u>71,511</u>	<u>63,720</u>	<u>506,205</u>
<u>13,960,341</u>	<u>3,722,348</u>	<u>27,511,763</u>
(3,129,364)	4,426,278	533,122
<u>81,744,221</u>	<u>(16,102,769)</u>	<u>25,460,287</u>
<u>\$ 78,614,859</u>	<u>\$ (11,676,490)</u>	<u>\$ 25,993,409</u>

CITY OF STAFFORD, TEXAS**BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2012

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>
Assets			
Cash and cash equivalents	\$ 11,797,692	\$ 4,200,117	\$ 33,811
Taxes receivable, net	1,912,322	87,353	36,879
Other receivables	399,687		
Due from other governments	954,807		
Due from other funds	253,145		
Inventories	10,687		
Total Assets	<u>\$ 15,328,340</u>	<u>\$ 4,287,470</u>	<u>\$ 70,690</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 702,751	\$	\$
Accrued expenditures	40,390		
Due to other funds	143,614	137,298	41
Due to component unit	7,584		
Deferred revenue	636,071		36,879
Total Liabilities	<u>1,530,410</u>	<u>137,298</u>	<u>36,920</u>
 Fund balances:			
Nonspendable	10,687		
Restricted for:			
Debt service			33,770
Municipal court programs			
Public safety programs			
Municipal services			
Tourism		4,150,172	
Assigned	190,422		
Unassigned	13,596,821		
Total Fund Balances	<u>13,797,930</u>	<u>4,150,172</u>	<u>33,770</u>
 Total Liabilities and Fund Balances	 <u>\$ 15,328,340</u>	 <u>\$ 4,287,470</u>	 <u>\$ 70,690</u>

See Notes to Basic Financial Statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 844,656	\$ 16,876,276
	2,036,554
	399,687
4,805	959,612
143,614	396,759
	10,687
<u>\$ 993,075</u>	<u>\$ 20,679,575</u>
\$ 400	\$ 703,151
	40,390
29,724	310,677
	7,584
	672,950
<u>30,124</u>	<u>1,734,752</u>
	10,687
460,309	494,079
126,703	126,703
79,695	79,695
296,244	296,244
	4,150,172
	190,422
	13,596,821
<u>962,951</u>	<u>18,944,823</u>
<u>\$ 993,075</u>	<u>\$ 20,679,575</u>

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CITY OF STAFFORD, TEXAS

***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
September 30, 2012***

Total fund balance, governmental funds \$ 18,944,823

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 64,458,951

Uncollected fines and forfeitures and other long-term receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. 312,764

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

Bonds and capital leases	(2,251,725)
Excess sales tax due to State	(2,370,675)
Accrued long-term interest	(1,396)
Accrued compensated absences	(793,730)

Net Assets of Internal Service Fund not reported in governmental funds 315,847

Net Assets of Governmental Activities in the Statement of Net Assets \$ 78,614,859

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>
Revenues			
Taxes:			
Sales and use tax	\$ 10,809,994	\$ 1,037,206	\$ 1,735
Franchise taxes	1,755,223		
Fines and forfeitures	969,483		
Licenses and permits	462,395		
Intergovernmental	1,055,006		
Charges for services	2,020,106		
Interest	28,239	10,823	3,453
Miscellaneous	162,624		
Total Revenues	<u>17,263,070</u>	<u>1,048,029</u>	<u>5,188</u>
Expenditures			
Current:			
General administration	1,858,853		
Financial administration	291,134		
Municipal services and public works	4,339,872		
Police and emergency services	6,883,605		
Recreation and performing arts	387,553	481,444	
Stafford Centre	1,356,029		
Judicial	396,229		
Capital Outlay	1,956,492		2,507,070
Debt Service:			
Principal	361,622		
Interest and other charges	34,125		
Total Expenditures	<u>17,865,514</u>	<u>481,444</u>	<u>2,507,070</u>
Revenues over (under) expenditures	<u>(602,444)</u>	<u>566,585</u>	<u>(2,501,882)</u>
Other Financing Sources (Uses)			
Capital leases	1,186,906		
Proceeds from sale of assets	9,425		
Total other financing sources (uses)	<u>1,196,331</u>		
Net Changes in Fund Balances	593,887	566,585	(2,501,882)
Fund Balances - Beginning of Year	<u>13,204,043</u>	<u>3,583,587</u>	<u>2,535,652</u>
Fund Balances - End of Year	<u>\$ 13,797,930</u>	<u>\$ 4,150,172</u>	<u>\$ 33,770</u>

See Notes to Basic Financial Statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 242,758	\$ 12,091,693
	1,755,223
47,130	1,016,613
	462,395
15,218	1,070,224
	2,020,106
2,582	45,097
126,198	288,822
<u>433,886</u>	<u>18,750,173</u>
	1,858,853
	291,134
26,354	4,366,226
78,170	6,961,775
	868,997
	1,356,029
17,564	413,793
	4,463,562
200,000	561,622
24,500	58,625
<u>346,588</u>	<u>21,200,616</u>
<u>87,298</u>	<u>(2,450,443)</u>
	1,186,906
	9,425
	<u>1,196,331</u>
87,298	(1,254,112)
<u>875,653</u>	<u>20,198,935</u>
<u>\$ 962,951</u>	<u>\$ 18,944,823</u>

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CITY OF STAFFORD, TEXAS

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

For the Year Ended September 30, 2012

Net change in fund balances - total governmental funds: \$ (1,254,112)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$1,998,049 was exceeded by depreciation of \$3,196,347 in the current period. (1,198,298)

Governmental activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the book value of the asset sold. (200,618)

Governmental funds do not present revenues (uncollected fines and forfeitures) that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 18,361

Governmental funds report the proceeds from capital leases as another financial source or an increase to fund balance. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities. (1,186,906)

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 561,222

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected in Governmental funds 617
Compensated absences (66,299)
Net pension obligation (115,975)

Operations of Internal Service Funds not reported in Governmental Fund activities 312,644

Change in net assets of governmental activities \$ (3,129,364)

CITY OF STAFFORD, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2012

	Governmental Activities
	Internal Service Fund
Assets	
Cash and cash equivalents	\$ 505,599
Accounts receivable, net	852
Total Assets	506,451
Liabilities	
Claims payable	104,522
Due to other funds	86,082
Total Liabilities	190,604
Net Assets	
Unrestricted	315,847
Total Net Assets	\$ 315,847

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended September 30, 2012

	Governmental Activities
	Internal Service Fund
Operating Revenues	
Health Insurance Premiums	\$ 1,538,743
Total Operating Revenues	<u>1,538,743</u>
Operating Expenses	
Health Claims	824,380
Administrative Fees	402,562
Total Operating Expenses	<u>1,226,942</u>
Operating income (loss)	<u>311,801</u>
Non-Operating Revenues	
Earnings on Investments	843
Total Non-Operating Revenues	<u>843</u>
Change in Net Assets	312,644
Total Net Assets - Beginning of Year	3,203
Total Net Assets - End of Year	<u>\$ 315,847</u>

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2012

	Governmental Activities
	Internal Service Fund
Cash Flows From Operating Activities	
Cash received from premiums	\$ 1,688,810
Cash paid for claims	(875,219)
Cash paid for administrative fees	(402,562)
Net cash provided by operating activities	411,029
Cash Flows From Investing Activities	
Interest received	843
Net cash used by investing activities	843
Net increase (decrease) in cash and cash equivalents	411,873
Cash and cash equivalents - beginning of year	93,726
Cash and cash equivalents - end of year	\$ 505,599
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	\$ 311,801
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in other receivables	78,759
Increase (decrease) in claims payable	(50,839)
Increase (decrease) in due to general fund	71,308
Net cash provided by operating activities	\$ 411,029

See Notes to Basic Financial Statements.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The City of Stafford, Texas (the “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.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

A. Reporting Entity

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

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.

Stafford Municipal School District

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 Chief Financial Officer 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 12 of the financial statements.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

The component units identified are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of a reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

B. 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 information on all of the nonfiduciary activities of the primary government. These statements include all activities of the primary government and its component units. 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 function or segment 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 function or segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular segment. 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. Non-major governmental funds are combined and reported in a separate column in the fund financial statements. The City has only one proprietary fund.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized 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.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

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 if 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 reports 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 *Capital Projects Fund* is 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.

The City has one proprietary fund that is not considered a major fund:

The *Internal Service Fund* accounts 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.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

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.

D. Cash and Cash Equivalents

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

E. Investments

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.

F. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as "due from other funds" or "due to other funds" in the fund financial statements.

G. 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.

H. 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 cost 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.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

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

Asset

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

I. 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. The City has established limits of 40 hours of compensation time that can be accumulated which must be taken (or paid to the employee as compensation) 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.

J. Use of Estimates

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

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. 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.

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.

L. Fund Equity

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Assigned – amounts that reflect the City’s intended use of resources. In the general fund, these are amounts that represent open encumbrances that roll into the following budget year.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City of Stafford has not adopted a minimum fund balance policy for the General Fund.

M. 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, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Deposits and Investments

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. At September 30, 2012, the City had no investments reported.

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, 2012, in addition to petty cash of \$2,162 the carrying amount of the City's cash, savings, and time deposits of \$17.4 million was entirely covered by federal depository insurance and collateral pledged in the City's name. The collateral was held in the safekeeping department of another bank, which acts as the pledging bank's agent.

Investment Policy

The City held no investments at September 30, 2012. The City is not exposed to custodial credit risk.

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 an "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 portfolios as they relate to both the adopted investment strategy statements and Texas State law.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Deposits and Investments (continued)

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.

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.

Note 4 - 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, 2012, are as follows:

	<u>General Fund</u>	<u>Hotel Occupancy Tax Fund</u>	<u>Capital Projects Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Receivables:					
Sales and use taxes	\$ 1,912,322	\$ 87,353	\$	\$	\$ 1,999,675
Fines and Forfeitures	3,448,565				3,448,565
Special assessments			36,879		36,879
Franchise taxes	116,027				116,027
Grants	954,807			4,805	959,612
Other				852	852
Gross Receivables	<u>6,431,721</u>	<u>87,353</u>	<u>36,879</u>	<u>5,657</u>	<u>6,561,610</u>
Less: allowance for uncollectibles	<u>(3,164,905)</u>				<u>(3,164,905)</u>
Net Total Receivables	<u>\$ 3,266,816</u>	<u>\$ 87,353</u>	<u>\$ 36,879</u>	<u>\$ 5,657</u>	<u>\$ 3,396,705</u>

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.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2012, 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	\$ 36,879	\$
Stafford Centre activities		360,186
Fines and forfeitures	<u>275,885</u>	
Total deferred revenues - governmental funds	<u>\$ 312,764</u>	<u>\$ 360,186</u>

Note 6 - Interfund Receivables, Payables and Transfers

Interfund balances at September 30, 2012, consisted of the following individual fund receivables and payables:

<u>Payable Fund</u>	<u>Receivable Fund</u>		
	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Totals</u>
General Fund	\$	\$ 143,614	\$ 143,614
Hotel Occupancy Fund	137,298		137,298
Capital Projects Fund	41		41
Non-Major Funds	<u>115,806</u>		<u>115,806</u>
Total	<u>\$ 253,145</u>	<u>\$ 143,614</u>	<u>\$ 396,759</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, 2012.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

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

	Balance 9/30/2011	Additions	Deletions	Balance 9/30/2012
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 4,948,125	\$	\$	\$ 4,948,125
Construction in progress	17,090,019	220,603	(16,921,707)	388,915
Total capital assets, not being depreciated	22,038,144	220,603	(16,921,707)	5,337,040
Capital assets being depreciated:				
Buildings	31,670,565			31,670,565
Improvements other than buildings	2,877,390	42,811	(5,063)	2,915,138
Machinery and equipment	11,244,697	1,760,394	(590,592)	12,414,499
Infrastructure	46,681,398	16,895,948		63,577,346
Total capital assets being depreciated	92,474,050	18,699,153	(595,655)	110,577,548
Less accumulated depreciation for:				
Buildings	(8,318,420)	(791,764)		(9,110,184)
Improvements other than buildings	(1,235,591)	(173,405)		(1,408,996)
Machinery and equipment	(7,294,654)	(957,537)	395,037	(7,857,154)
Infrastructure	(31,805,662)	(1,273,641)		(33,079,303)
Total accumulated depreciation	(48,654,327)	(3,196,347)	395,037	(51,455,637)
Total capital assets being depreciated, net	43,819,723	15,502,806	(200,618)	59,121,911
Governmental Activities				
Capital Assets, Net	\$ 65,857,867	\$ 15,723,409	\$ (17,122,325)	\$ 64,458,951

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

Governmental Activities	
General administration	\$ 228,058
Municipal services and public works	1,411,355
Police and emergency services	634,236
Recreation and performing arts	896,408
Judicial	26,290
Total depreciation expense - governmental activities	<u>\$ 3,196,347</u>

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

Construction in progress for various projects as of September 30, 2012, is as follows:

Governmental Activities	Authorized Contract	Total in Progress	Remaining Commitment
Staffordshire Road Extension	\$ 3,660,000	\$ 12,000	\$ 3,648,000
Kirkwood Road	800,000	214,415	585,585
Brand Lane	950,000	162,500	787,500
	<u>\$ 5,410,000</u>	<u>\$ 388,915</u>	<u>\$ 5,021,085</u>

Staffordshire Road Extension

In March 2012, the City entered into an agreement with Texas Department of Transportation (“TXDOT”) for the extension of Staffordshire Road from 5th street to Scanlin/Lexington Road. The City of Stafford will be responsible for 100% of the cost for Environmental work, Engineering (Design), ROW and utilities. All other costs will be allocated based on 80% Federal funding and 20% Local Government funding until the Federal funding reaches the maximum obligated amount of \$2,496,000.

Note 8 - 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 (0.5 percent) 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, 2012, the City had excess sales taxes collected of \$3,408,140 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, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - 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, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 635,000	\$	\$ (200,000)	\$ 435,000	\$ 215,000
Capital leases payable	172,967	1,186,906	(242,701)	1,117,172	269,345
Sales Tax obligations	2,489,196		(118,521)	2,370,675	118,521
Compensated absences - sick leave	727,432	67,442	(1,144)	793,730	
Net pension obligation, as restated	583,578	115,975		699,553	
Governmental Activities					
Long-term Liabilities	<u>\$ 4,608,173</u>	<u>\$ 1,370,323</u>	<u>\$ (562,366)</u>	<u>\$ 5,416,130</u>	<u>\$ 602,866</u>

Long-term bonded debt at September 30, 2012, is comprised of the following individual issues:

<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
General Obligation Bonds				
2004 Series	2.10% to 4.00%	\$ 1,700,000	2014	<u>\$ 435,000</u>

The City is in compliance with all significant bond limitations and restrictions contained in various bond orders. \$440,191 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, 2012, are shown below:

<u>Year Ending</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	215,000	16,750	231,750
2014	220,000	8,590	228,590
	<u>\$ 435,000</u>	<u>\$ 25,340</u>	<u>\$ 460,340</u>

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Excess Sales Tax Liability

The City negotiated a long-term payout of excess sales tax received in prior years in the amount of approximately \$3.6 million, with the State Comptroller. This amount was collected by the City and the Stafford Economic Development Corporation (SEDC) during the fiscal year periods 2000 through 2007. The total negotiated payout calls for a twenty-five year period with equal prorata amounts deducted each month from City's and the SEDC's sales tax receipts beginning with October 2007. No interest is associated with this long-term liability.

The annual requirements on the City's portion of the Excess Sales Tax liability, as of September 30, 2012, are \$118,521 for fiscal years 2012 through 2032, for a total of \$2,370,675.

Federal Tax Compliance (Arbitrage) for Long-Term Debt

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

Rebate

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

Unexpended Debt Issuance Proceeds (Yields Restriction Requirements)

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

At September 30, 2012, no arbitrage liability exists.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Capital Leases

During the year ended September 30, 2012, the City entered into a lease purchase agreement for firefighting equipment (two Custom Pumper Trucks and one Brush Truck) costing \$1,186,906. The lease is for a period of seven years with annual payments of \$184,599 and a stated interest rate of 2.9%. Interest paid on this lease was \$26,389 for the year ended September 30, 2012.

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 \$8,117 for the year ended September 30, 2012.

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, 2012:

Year Ending	Amount
9/30	
2012	\$ 277,226
2013	277,226
2014	184,599
2015	184,599
2016	184,599
2017	184,599
2018	184,599
Total minimum lease payments	1,200,221
Less amounts representing interest	<u>(83,049)</u>
Net present value of minimum lease payments	<u><u>\$ 1,117,172</u></u>

The assets acquired through capital leases are as follows:

Assets:	Governmental
Vehicles	Activities
Less: Accumulated Depreciation	\$ 2,184,292
Net	<u>(788,153)</u>
	<u><u>\$ 1,396,139</u></u>

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing statutes of TMRS.

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. The report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677. In addition this report is available on TMRS' website at www.TMRS.com.

Benefits

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

	Plan Year 2010	Plan Year 2011	Plan Year 2012
Employee deposit rate	7%	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating	70% of CPI Repeating

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Plan Description (continued)

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded (over-funded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2010, valuation is effective for rates beginning in January 2012).

Annual pension cost and net pension obligation as of September 30, 2012 are as follows:

Annual Required Contribution (ARC)	\$ 921,584
Interest on Net Pension Obligation	40,850
Adjustment to the ARC	<u>(35,115)</u>
Annual Pension Cost	927,319
Contributions Made	<u>(811,344)</u>
Increase in net pension	115,975
Net Pension Obligation, beginning of year	<u>583,578</u>
Net Pension Obligation, end of year	<u><u>\$ 699,553</u></u>

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Contributions (continued)

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
Ending			
2010	\$ 1,000,185	77.6%	\$ 380,172
2011	1,017,549	80.0%	583,578
2012	927,319	87.5%	699,553

The City's total payroll in fiscal year 2012 was \$5.8 million and the City's contributions were based on a payroll of \$5.8 million. Contributions made by employees totaled \$407,308, and the City made contributions of \$811,344 during the fiscal year ended September 30, 2012.

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the fiscal years ended 2012, 2011 and 2010 were as follows and equaled the required contributions each year:

Fiscal Year	Supplemental Death Benefits	Percent Contributed
2010	\$ 15,025	100%
2011	15,807	100%
2012	12,116	100%

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of actuarial valuation. As explained above, there is a time delay between the valuation and when the rate becomes effective -- for example, the January 1, 2012, contribution rate is based on the December 31, 2010, valuation results. If a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar-year basis. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City's fiscal year.

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010, valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation date	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	28.1 years; closed period	27.2 years; closed period	26.2 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
Actuarial Assumptions:			
Investment return *	7.5%	7.0%	7.0%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

The funded status of the plan as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial valuation date	December 31, 2011
Actuarial value of plan assets (a)	\$23,228,418
Actuarial accrued liability (AAL) (b)	27,063,650
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$3,835,232
Funded Ratio (a/b)	85.8%
Projected Annual Covered Payroll (c)	5,780,320
UAAL or OAAL as % of covered payroll ((b-a)/c)	66.3%

The schedule of the funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Employee Retirement System (continued)

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, 2012, were \$60,724. 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.

Note 10 - Self-Insured Health Care

During the year ended September 30, 2012, 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 \$50,000 and for aggregate loss exceeding \$1,250,000.

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 Bardon Insurance Group, Inc. are filed with the Texas State Board of Insurance, Austin, Texas, and are public records. The City does not provide post-retirement health benefits to its employees.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 10 - Self-Insured Health Care (continued)

Changes in the medical claims liability amounts for the last three fiscal years are presented below:

Fiscal Year ended September 30	Beginning of Fiscal-Year Liability	Annual Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year- End
2010	\$ 234,561	\$ 903,308	\$ 846,504	\$ 291,365
2011	291,365	908,428	1,044,432	155,361
2012	155,361	824,380	875,219	104,522

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.

Note 12 - 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 2011-2012 annual billing to the SMSD for these City provided services was \$251,202, with \$23,873 recorded as a receivable as of September 30, 2012, in the General Fund. The City also provides SMSD the use of the Civic Center and Police Officers at no charge.

Note 13 - Contributions from Component Unit

During the year ended September 30, 2012, the Stafford Economic Development Corporation contributed a total of \$233,652 to the City. 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.

CITY OF STAFFORD, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 14 - 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. Unexpended amounts from participation contributions for use under the terms of these agreements at September 30, 2012, are as follows:

Street lighting participation	\$ 9,244
Street and drainage participation	<u>51,696</u>
Total	<u>\$ 60,940</u>

Note 15 - 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 16 - Net Assets

The City contributes to the Texas Municipal Retirement System (TMRS) using the phase-in rate and not the full rate. The full rate represents the annual required contribution (ARC) under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. During the current year, it was determined that the City needed to disclose a net pension obligation (NPO) in its financial statements to reflect the difference between the ARC and actual contributions for fiscal years 2009 through 2011. The effect of the restatement was to decrease the City's net asset beginning balance for governmental activities by \$583,578 from \$82,327,799 to \$81,744,221.

The NPO in future years' financial statements will be adjusted to reflect the difference between actual contributions and the ARC for that year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STAFFORD, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2012

	2012			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues				
Taxes	\$ 11,452,242	\$ 11,452,242	\$ 12,565,217	\$ 1,112,975
Fines and fees	1,200,000	1,200,000	969,483	(230,517)
Licenses and permits	430,000	430,000	462,395	32,395
Intergovernmental	1,007,600	1,014,453	1,055,006	40,553
Interest	28,200	28,200	28,239	39
Charges for services	1,878,100	1,969,100	2,020,106	51,006
Miscellaneous	131,300	131,300	162,624	31,324
Total Revenues	<u>16,127,442</u>	<u>16,225,295</u>	<u>17,263,070</u>	<u>1,037,775</u>
Expenditures				
Current:				
General administration	2,277,024	2,325,569	1,858,853	466,716
Financial administration	324,103	324,403	291,134	33,269
Municipal Services and public works	5,779,011	5,850,644	4,339,872	1,510,772
Police and emergency services	7,104,398	7,575,174	6,883,605	691,569
Recreation and performing arts	511,588	517,120	387,553	129,567
Stafford Centre	1,230,000	1,321,000	1,356,029	(35,029)
Judicial	457,098	457,503	396,229	61,274
Capital Outlay	1,158,798	1,159,403	769,586	389,817
Debt Service:				
Principal	405,205	405,205	361,622	43,583
Interest and other charges			34,125	(34,125)
Total Expenditures	<u>19,247,225</u>	<u>19,936,021</u>	<u>16,678,608</u>	<u>3,257,413</u>
Revenues over (under) expenditures	(3,119,783)	(3,710,726)	584,462	4,295,188
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	10,000	10,000	9,425	(575)
Total other financing sources (uses)	<u>10,000</u>	<u>10,000</u>	<u>9,425</u>	<u>(575)</u>
Changes in fund balance	(3,109,783)	(3,700,726)	593,887	4,294,613
Fund Balance - Beginning of Year	<u>13,204,043</u>	<u>13,204,043</u>	<u>13,204,043</u>	
Fund Balance - End of Year	<u>\$ 10,094,260</u>	<u>\$ 9,503,317</u>	<u>\$ 13,797,930</u>	<u>\$ 4,294,613</u>

CITY OF STAFFORD, TEXAS
HOTEL OCCUPANCY TAX - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP BASIS)
For the Year Ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Hotel occupancy taxes	\$ 850,000	\$ 850,000	\$ 1,037,206	\$ 187,206
Interest	7,800	7,800	10,823	3,023
Total Revenues	<u>857,800</u>	<u>857,800</u>	<u>1,048,029</u>	<u>190,229</u>
Expenditures				
Current:				
Recreation and performing arts	734,410	658,230	481,444	176,786
Total Expenditures	<u>734,410</u>	<u>658,230</u>	<u>481,444</u>	<u>176,786</u>
Changes in fund balance	123,390	199,570	566,585	367,015
Fund Balance - Beginning of Year	<u>3,583,587</u>	<u>3,583,587</u>	<u>3,583,587</u>	
Fund Balance - End of Year	<u>\$ 3,706,977</u>	<u>\$ 3,783,157</u>	<u>\$ 4,150,172</u>	<u>\$ 367,015</u>

CITY OF STAFFORD, TEXAS
NOTES TO BUDGETARY REQUIRED SUPPLEMENTARY INFORMATION
For the year ended September 30, 2012

All departments of the City submit requests for appropriations to the Mayor 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 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.

Annually, the City adopts budgets for all governmental fund types (General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund). Capital Project Fund budgets are adopted on a project basis and are updated and modified annually. Special Revenue Fund budgets are prepared in aggregate and not on a fund by fund or project by project basis.

The General Fund, Hotel Motel Occupancy Tax Fund and the Debt service Fund budgets are annual appropriations style budgets prepared and typically presented on a GAAP (generally accepted accounting principles) basis.

The General Fund Budget presentation has excluded the other financing sources and associated expenditures connected with the lease purchase agreement for firefighting equipment (two Custom Pumper Trucks and one Brush Truck) costing \$1,186,906.

The following table represents the revenues and expenditures associated with this project and the different presentations between the budgetary presentation and the GAAP basis financial statements:

	<u>Budgetary Presentation</u>	<u>Capital Lease Issuance</u>	<u>GAAP Basis Financial Statements</u>
Total Revenues	\$ 17,263,070	\$	\$ 17,263,070
Total Expenditures	16,678,608	1,186,906	17,865,514
Other Financing Sources	9,425	1,186,906	1,196,331
Changes in Fund Balance	<u>\$ 593,887</u>	<u>\$</u>	<u>\$ 593,887</u>

CITY OF STAFFORD, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
For the year ended September 30, 2012

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)

Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	(UAAL) as a Percentage of Covered Payroll ((b-a)/c)
2009	14,309,760	19,066,206	\$4,756,446	75.1%	5,849,748	81.3%
2010	21,884,303	25,657,779	3,773,476	85.3%	5,925,145	63.7%
2011	23,228,418	27,063,650	3,835,232	85.8%	5,780,320	66.3%

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OTHER SUPPLEMENTAL INFORMATION

CITY OF STAFFORD, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2012

	Debt Service	Courts Efficiency	Narcotic Seizure	Court Security
Assets				
Cash and cash equivalents	\$ 460,309	\$	\$ 58,148	\$
Due from other funds		6,747		2,976
Due from other governments				
Total Assets	<u>\$ 460,309</u>	<u>\$ 6,747</u>	<u>\$ 58,148</u>	<u>\$ 2,976</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$	\$	\$	\$
Due to other funds			675	2,976
Total Liabilities			<u>675</u>	<u>2,976</u>
Fund balances:				
Restricted for				
Debt Service	460,309			
Municipal court programs		6,747		
Public safety programs			57,473	
Municipal services				
Total Fund Balances	<u>460,309</u>	<u>6,747</u>	<u>57,473</u>	
Total Liabilities and Fund Balances	<u>\$ 460,309</u>	<u>\$ 6,747</u>	<u>\$ 58,148</u>	<u>\$ 2,976</u>

Court Technology	Child Safety Fees	Police Department Funds	Participation Agreements and Other	Total Non-Major Governmental Funds
\$ 120,399	\$ 13,492	\$ 23,915	\$ 302,284	\$ 844,656
		4,805		143,614
<u>\$ 120,399</u>	<u>\$ 13,492</u>	<u>\$ 28,720</u>	<u>\$ 302,284</u>	<u>\$ 993,075</u>
\$ 443		\$ 19,990	\$ 400	\$ 400
<u>443</u>		<u>19,990</u>	<u>5,640</u>	<u>29,724</u>
			<u>6,040</u>	<u>30,124</u>
119,956				460,309
	13,492	8,730		126,703
			296,244	79,695
<u>119,956</u>	<u>13,492</u>	<u>8,730</u>	<u>296,244</u>	<u>296,244</u>
				<u>962,951</u>
<u>\$ 120,399</u>	<u>\$ 13,492</u>	<u>\$ 28,720</u>	<u>\$ 302,284</u>	<u>\$ 993,075</u>

CITY OF STAFFORD, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>Debt Service</u>	<u>Courts Efficiency</u>	<u>Narcotic Seizure</u>	<u>Court Security</u>
Revenues				
Taxes:				
Sales and use tax	\$ 242,758	\$	\$	\$
Fines and forfeitures		2,483		19,147
Intergovernmental				
Investment earnings	1,860		84	
Miscellaneous			55,000	
Total Revenues	<u>244,618</u>	<u>2,483</u>	<u>55,084</u>	<u>19,147</u>
Expenditures				
Current:				
Municipal services and public works			7,502	
Police and emergency services		2,696		19,657
Judicial				
Debt Service:				
Principal	200,000			
Interest and other charges	24,500			
Total Expenditures	<u>224,500</u>	<u>2,696</u>	<u>7,502</u>	<u>19,657</u>
Changes in Fund Balance	20,118	(213)	47,582	(510)
Fund Balances - Beginning of Year	<u>440,191</u>	<u>6,960</u>	<u>9,891</u>	<u>510</u>
Fund Balances - End of Year	<u>\$ 460,309</u>	<u>\$ 6,747</u>	<u>\$ 57,473</u>	<u>\$</u>

<u>Court Technology</u>	<u>Child Safety Fees</u>	<u>Police Department Funds</u>	<u>Participation Agreements and Other</u>	<u>Total Non-Major Governmental Funds</u>
\$ 25,500	\$	\$	\$	\$ 242,758
		15,218		47,130
		35	603	15,218
	26,946		44,252	2,582
<u>25,500</u>	<u>26,946</u>	<u>15,253</u>	<u>44,855</u>	<u>126,198</u>
17,564	55,817	7,880	10,972	26,354
				78,170
				17,564
				200,000
<u>17,564</u>	<u>55,817</u>	<u>7,880</u>	<u>10,972</u>	<u>24,500</u>
7,936	(28,871)	7,373	33,883	87,298
<u>112,020</u>	<u>42,363</u>	<u>1,357</u>	<u>262,361</u>	<u>875,653</u>
<u>\$ 119,956</u>	<u>\$ 13,492</u>	<u>\$ 8,730</u>	<u>\$ 296,244</u>	<u>\$ 962,951</u>

CITY OF STAFFORD, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL (GAAP BASIS)

For the Year Ended September 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Taxes	\$ 242,758	\$ 242,758	\$
Interest	2,100	1,860	(240)
Total Revenues	<u>244,858</u>	<u>244,618</u>	<u>(240)</u>
Expenditures			
Debt Service:			
Principal	200,000	200,000	
Interest and other charges	24,750	24,500	250
Total Expenditures	<u>224,750</u>	<u>224,500</u>	<u>250</u>
Changes in Fund Balance	20,108	20,118	10
Fund Balance - Beginning of Year	<u>440,191</u>	<u>440,191</u>	
Fund Balance - End of Year	<u>\$ 460,299</u>	<u>\$ 460,309</u>	<u>\$ 10</u>