

**CITY OF FARMERSVILLE, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2009**

**RUTHERFORD, TAYLOR & COMPANY, P.C.**  
*Certified Public Accountants*  
2802 Washington Street  
Greenville, Texas 75401  
(903) 455-6252

CITY OF FARMERSVILLE, TEXAS  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2009

**TABLE OF CONTENTS**

|   | <u>Page</u> | <u>Exhibit</u> |
|---|-------------|----------------|
| <u>General Information</u>  |             |                |
| Roster of City Officials.....   | 4           |                |
| Roster of City Directors.....   | 5           |                |
| <br><u>Financial Section</u>  |             |                |
| Independent Auditor’s Report .....  | 7           |                |
| Independent Auditor’s Report on Internal Control over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 8           |                |
| Management’s Discussion and Analysis (Required Supplementary Information) ....  | 10          |                |
| <br><u>Basic Financial Statements:</u>  |             |                |
| Statement of Net Assets .....   | 20          | A-1            |
| Statement of Activities .....   | 21          | A-2            |
| Balance Sheet – Governmental Funds .....  | 22          | A-3            |
| Reconciliation of the Governmental Funds<br>Balance Sheet to the Statement of Net Assets .....  | 23          | A-4            |
| Statement of Revenues, Expenditures and Changes<br>in Fund Balance – Governmental Funds .....   | 24          | A-5            |
| Reconciliation of the Statement of Revenues, Expenditures and Changes<br>In Fund Balance of Governmental Funds to the Statement of Activities .....   | 25          | A-6            |
| Statement of Net Assets – Proprietary Funds.....  | 26          | A-7            |
| Statement of Revenues, Expenditures and Changes<br>in Fund Net Assets – Proprietary Funds .....   | 27          | A-8            |
| Statement of Cash Flows – Proprietary Funds .....   | 28          | A-9            |
| Notes to the Basic Financial Statements .....   | 29          | A-10           |
| <br><u>Required Supplementary Information:</u>  |             |                |
| Budgetary Comparison Schedule – General Fund .....  | 45          | B-1            |
| Budgetary Comparison Schedule – Community / Economic Development Fund .....   | 46          | B-2            |
| Schedule of Funding Progress .....  | 47          | B-3            |

## GENERAL INFORMATION

CITY OF FARMERSVILLE, TEXAS  
ROSTER OF CITY OFFICIALS  
SEPTEMBER 30, 2009

Mayor .....Donald C. Smith  
Mayor Pro-Tem.....Paul D. Kelly  
Council Member .....Fred Langford  
Council Member .....Billy Long  
Council Member .....Kevin Green  
Council Member .....Bobby Bishop

CITY OF FARMERSVILLE, TEXAS  
CITY DIRECTORS  
SEPTEMBER 30, 2009

City Manager .....John Moran  
City Attorney .....Brown & Hofmeister  
City Secretary .....Eddie Sims  
Police Chief.....Phillip Pannell  
Municipal Judge .....Terry Douglas

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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Honorable Mayor and Members of the City Council  
City of Farmersville, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Farmersville, Texas (City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Farmersville, Texas, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Management's discussion and analysis and budgetary comparison information identified as required supplementary information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 22, 2010  
Greenville, Texas

\* Signature on File with City of Farmersville

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Honorable Mayor and Members of the City Council  
City of Farmersville, Texas

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Farmersville, Texas (City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose as described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated January 22, 2010.



Report on Internal Control – Continued

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, management, and other grantors and is not intended to be and should not be used by anyone other than these specified parties.

January 22, 2010  
Greenville, Texas

\* Signature on File with City of Farmersville

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Required Supplementary Information)

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

This section of the City of Farmersville, Texas annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2009. Please read it in conjunction with the City's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

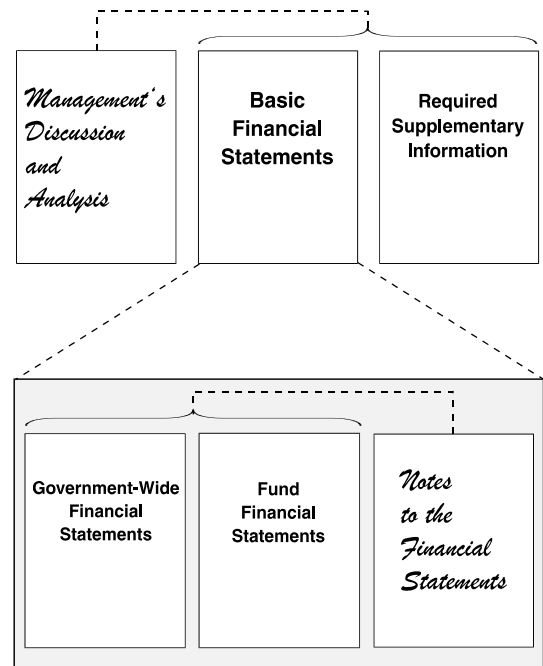
- The City's total combined net assets were \$ 11,583,216 at September 30, 2009.
- During the year, the City's expenses were \$ 16,505 less than the \$ 3,533,339 generated in taxes and other revenues, including transfers to business-type activities for governmental activities. Revenues of the business-type activities exceeded the expenses, including transfers from governmental activities, by \$ 467,197.
- The total cost of the City's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$ 702,192.
- The City acquired new vehicles and other equipment during the year. The construction of Farmersville Parkway continued and utility relocations associated with US Highway 380 construction continued throughout the year.
- The City refinanced a lease agreement entered into in a prior year to purchase a new Ferrara fire truck.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

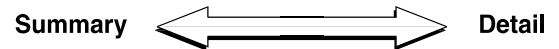
This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as utility services.
- Fiduciary fund statements, if any, provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

**Figure A-1, Required Components of the City's Annual Financial Report**



The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

Figure A-2 summarizes the major features of the City's basic financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

| <i>Type of Statements</i>                     | <b>Fund Statements</b>   |  |  |   |
|---|--|--|--|---|
|   | <b>Government-wide</b>   | <b>Governmental Funds</b>  | <b>Proprietary Funds</b>   | <b>Fiduciary Funds</b>  |
| <i>Scope</i>                                  | Entire Agency's government (except fiduciary funds) and the Agency's component units                           | The activities of the city that are not proprietary or fiduciary   | Activities the city operates similar to private businesses: self insurance   | Instances in which the city is the trustee or agent for someone else's resources  |
| <i>Required financial statements</i>          | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus   |
| <i>Type of asset/liability information</i>    | All assets and liabilities, both financial and capital, short-term and long-term                               | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included  | All assets and liabilities, both financial and capital, and short-term and long-term   | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can      |
| <i>Type of inflow/outflow information</i>     | All revenues and expenses during year, regardless of when cash is received or paid                             | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid   | All revenues and expenses during year, regardless of when cash is received or paid  |

**Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base and population.

The government-wide financial statements of the City include the governmental activities. Most of the City's basic services are included here, such as Police and fire protection, public works, community development and general administration. Property taxes, fees, fines and intergovernmental support – including grants – finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

- Proprietary funds—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the City's other programs and activities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net assets were \$ 11,583,216 at September 30, 2009.

|  | Net Assets                 |                      |                             |                     |                      |                      |
|--|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
|  | Governmental<br>Activities |                      | Business-type<br>Activities |                     | Total<br>Government  |                      |
|  | 2009                       | 2008                 | 2009                        | 2008                | 2009                 | 2008                 |
| <b>Assets</b>                                      |                            |                      |                             |                     |                      |                      |
| Cash and Investments                               | \$ 2,956,332               | \$ 3,797,306         | \$ 1,657,005                | \$ 1,029,670        | \$ 4,613,337         | \$ 4,826,976         |
| Receivables and Other Assets                       | 467,038                    | 332,319              | 319,707                     | 894,213             | 786,745              | 1,226,532            |
| Capital Assets, net of<br>Accumulated Depreciation | 7,462,392                  | 7,283,715            | 3,661,108                   | 3,283,188           | 11,123,500           | 10,566,903           |
| <b>Total Assets</b>                                | <b>\$ 10,885,762</b>       | <b>\$ 11,413,340</b> | <b>\$ 5,637,820</b>         | <b>\$ 5,207,071</b> | <b>\$ 16,523,582</b> | <b>\$ 16,620,411</b> |
| <b>Liabilities</b>                                 |                            |                      |                             |                     |                      |                      |
| Current Liabilities                                | \$ 420,337                 | \$ 504,291           | \$ 169,915                  | \$ 206,363          | \$ 590,252           | \$ 710,654           |
| Noncurrent Liabilities                             | 4,350,114                  | 4,810,243            | -                           | -                   | 4,350,114            | 4,810,243            |
| <b>Total Liabilities</b>                           | <b>\$ 4,770,451</b>        | <b>\$ 5,314,534</b>  | <b>\$ 169,915</b>           | <b>\$ 206,363</b>   | <b>\$ 4,940,366</b>  | <b>\$ 5,520,897</b>  |
| <b>Net Assets</b>                                  |                            |                      |                             |                     |                      |                      |
| Invested in Capital Assets, net<br>of Related Debt | \$ 4,008,778               | \$ 4,346,332         | \$ 3,661,108                | \$ 3,283,188        | \$ 7,669,886         | \$ 7,629,520         |
| Restricted   | 937,577                    | 918,430              | -                           | -                   | 937,577              | 918,430              |
| Unrestricted                                       | 1,168,956                  | 834,044              | 1,806,797                   | 1,717,520           | 2,975,753            | 2,551,564            |
| <b>Total Net Assets</b>                            | <b>\$ 6,115,311</b>        | <b>\$ 6,098,806</b>  | <b>\$ 5,467,905</b>         | <b>\$ 5,000,708</b> | <b>\$ 11,583,216</b> | <b>\$ 11,099,514</b> |

The largest portion of the City's net assets (66.2%) reflects its investment in capital assets (land, buildings, equipment and infrastructure), net of any related debt used to acquire the assets that is outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in 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.

Approximately \$ 224,947 (24%) of the City's restricted net assets represents proceeds for debt retirement. These proceeds are restricted for repayment of tax supported debt. The largest remaining restricted net asset relates to the balance restricted for the Farmersville Economic Development Corporation. This amount, \$ 617,683, represents a majority of the restricted net assets (66%) and is restricted for future economic development in the City. The balances are under the control of the development corporation's board of directors. The Farmersville Community Development Corporation balances are also restricted. This amount, \$ 94,947, is restricted for community development within the City. All other restricted net assets are for specific programs within the City's general government. The unrestricted net asset represents resources available to fund the programs of the City next year. The balance is divided between governmental activities (39%) and business-type activities (61%).

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

**CHANGE IN NET ASSETS**

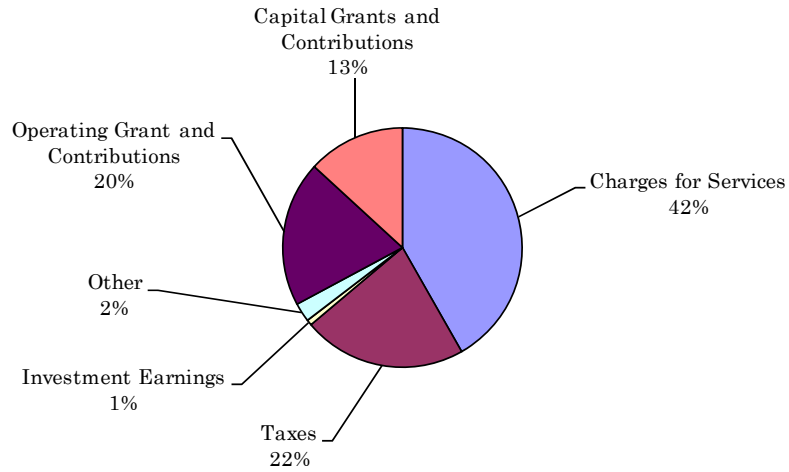
The following table presents the changes in net assets for the government-wide financial statements for the year ended September 30, 2009.

| Changes in Net Assets                       |                            |                       |                             |                     |                      |                      |
|---|----------------------------|-----------------------|-----------------------------|---------------------|----------------------|----------------------|
|   | Governmental<br>Activities |                       | Business-type<br>Activities |                     | Total<br>Government  |                      |
|   | 2009                       | 2008                  | 2009                        | 2008                | 2009                 | 2008                 |
| <b>Revenues</b>                             |                            |                       |                             |                     |                      |                      |
| Program Revenues                            |                            |                       |                             |                     |                      |                      |
| Charges for Services                        | \$ 697,159                 | \$ 565,210            | \$ 1,540,820                | \$ 1,524,330        | \$ 2,237,979         | \$ 2,089,540         |
| Operating Grant and Contributions           | 350,481                    | 275,703               | 702,775                     | 639,966             | 1,053,256            | 915,669              |
| Capital Grants and Contributions            | 524,917                    | 240,759               | 181,047                     | 311,274             | 705,964              | 552,033              |
| General Revenues                            |                            |                       |                             |                     |                      |                      |
| Taxes                                       | 1,183,043                  | 1,165,132             | -                           | -                   | 1,183,043            | 1,165,132            |
| Investment Earnings                         | 30,352                     | 144,129               | 9,699                       | 34,342              | 40,051               | 178,471              |
| Other                                       | 104,291                    | 71,420                | 33,217                      | -                   | 137,508              | 71,420               |
| <b>Total Revenues</b>                       | <b>\$ 2,890,243</b>        | <b>\$ 2,462,353</b>   | <b>\$ 2,467,558</b>         | <b>\$ 2,509,912</b> | <b>\$ 5,357,801</b>  | <b>\$ 4,972,265</b>  |
| <b>Expenses</b>                             |                            |                       |                             |                     |                      |                      |
| Governmental Activities                     |                            |                       |                             |                     |                      |                      |
| Mayor and City Council                      | \$ 10,569                  | \$ 18,089             | \$ -                        | \$ -                | \$ 10,569            | \$ 18,089            |
| Administration                              | 661,706                    | 617,215               | -                           | -                   | 661,706              | 617,215              |
| Municipal Court                             | 97,077                     | 90,720                | -                           | -                   | 97,077               | 90,720               |
| Library and Civic Center                    | 143,015                    | 140,634               | -                           | -                   | 143,015              | 140,634              |
| Police                                      | 701,252                    | 710,694               | -                           | -                   | 701,252              | 710,694              |
| Fire and Emergency Services                 | 153,323                    | 141,161               | -                           | -                   | 153,323              | 141,161              |
| Public Works                                | 1,211,841                  | 1,078,201             | -                           | -                   | 1,211,841            | 1,078,201            |
| Super Series                                | 21,036                     | 26,823                | -                           | -                   | 21,036               | 26,823               |
| Community Development                       | 74,326                     | 377,109               | -                           | -                   | 74,326               | 377,109              |
| Economic Development                        | 238,778                    | 115,069               | -                           | -                   | 238,778              | 115,069              |
| Debt Service                                | 203,911                    | 197,537               | -                           | -                   | 203,911              | 197,537              |
| Business-type Activities                    |                            |                       |                             |                     |                      |                      |
| Water and Wastewater Utility                | -                          | -                     | 955,648                     | 783,228             | 955,648              | 783,228              |
| Electric Utility                            | -                          | -                     | 44,482                      | 34,093              | 44,482               | 34,093               |
| Refuse Utility                              | -                          | -                     | 357,135                     | 295,997             | 357,135              | 295,997              |
| <b>Total Expenses</b>                       | <b>\$ 3,516,834</b>        | <b>\$ 3,513,252</b>   | <b>\$ 1,357,265</b>         | <b>\$ 1,113,318</b> | <b>\$ 4,874,099</b>  | <b>\$ 4,626,570</b>  |
| <b>Excess (Deficiency) before Transfers</b> | <b>\$ (626,591)</b>        | <b>\$ (1,050,899)</b> | <b>\$ 1,110,293</b>         | <b>\$ 1,396,594</b> | <b>\$ 483,702</b>    | <b>\$ 345,695</b>    |
| Transfer In (Out)                           | 643,096                    | (95,516)              | (643,096)                   | 95,516              | -                    | -                    |
| <b>Increase (Decrease) in Net Assets</b>    | <b>\$ 16,505</b>           | <b>\$ (1,146,415)</b> | <b>\$ 467,197</b>           | <b>\$ 1,492,110</b> | <b>\$ 483,702</b>    | <b>\$ 345,695</b>    |
| Net Assets - October 1 (Beginning)          | 6,098,806                  | 7,213,450             | 5,000,708                   | 3,508,598           | 11,099,514           | 10,722,048           |
| Prior Period Adjustment                     | -                          | 31,771                | -                           | -                   | -                    | 31,771               |
| <b>Net Assets - Beginning as Restated</b>   | <b>\$ 6,098,806</b>        | <b>\$ 7,245,221</b>   | <b>\$ 5,000,708</b>         | <b>\$ 3,508,598</b> | <b>\$ 11,099,514</b> | <b>\$ 10,753,819</b> |
| <b>Net Assets - September 30 (Ending)</b>   | <b>\$ 6,115,311</b>        | <b>\$ 6,098,806</b>   | <b>\$ 5,467,905</b>         | <b>\$ 5,000,708</b> | <b>\$ 11,583,216</b> | <b>\$ 11,099,514</b> |

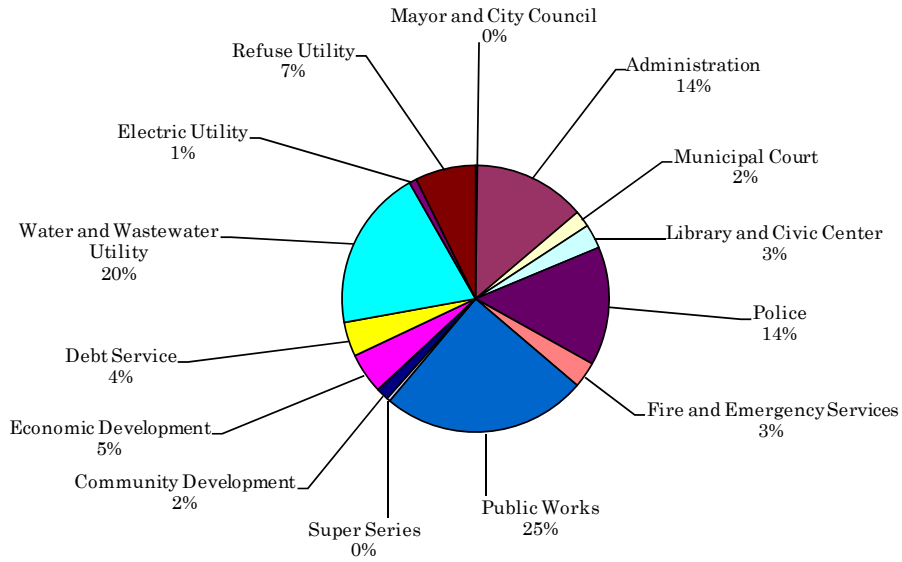
The charts that follow provide a snapshot of the government-wide activities of the City. The revenues are presented reflecting the sources and percentage of source of revenue. The expense chart presents expenses identified by the program or activity for which the expense was incurred.

CITY OF FARMERSVILLE, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 YEAR ENDED SEPTEMBER 30, 2009

Government-wide Revenues



Government-wide Expenses



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

**GOVERNMENTAL ACTIVITIES**

The City's total governmental activities revenues were \$ 2,890,243. 41% of the City's revenue comes from taxes and franchise fees. Taxes include property taxes, sales taxes and utility franchise fees. 54% of revenue is generated through charges for services, which includes rental, licenses and permits, intergovernmental support for services provided to other entities and other user charges. The remaining 5% is comprised of other miscellaneous sources, including investment earnings.

The total cost of all governmental activities programs and services was \$ 3,516,834. Public works, which includes street maintenance and related activities, represents 34% of the expenses. Police, fire and emergency services comprised 24% of the current year expenses. The remaining 42% of expenses includes general administration, municipal court and other governmental activities.

**BUSINESS -TYPE ACTIVITIES**

Business-type activities include the water and wastewater utility, electric utility and refuse utility. The overall operation of the utilities was similar to prior years.

The water and wastewater utility's revenues exceeded its expenses and transfer to governmental activities by \$ 515,493. The utility provides water and wastewater services to the residents of the City. It provides treated water to various outside-the-City customers as well.

The electric utility is maintained to account for the operating costs associated with the upkeep of the City's electric distribution system. The City has leased out the system's operation to a third-party electricity provider, and in return the City receives a management fee. The City's responsibility is to provide all supplies and materials for the up-keep of the system. During this year, the City received a management fee totaling \$ 554,922.

The refuse utility accounts for the services provided for solid waste collection and disposal within the City. In 2009, the revenues generated were \$ 37,054 less than the expenses, including transfers to the governmental activities. The largest expense relates to the contract with the third-party collection and disposal company, which is 86% of the utility expenses.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflow, outflow 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 total ending fund balances of \$ 2,889,455. One half of the total ending fund balance (\$ 1,436,950) constituted unreserved fund balance, which is considered available for appropriation. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service (\$ 226,754), or reserved for capital improvements (\$ 1,225,751).

General Fund expenditures and other uses exceeded revenues and other resources in the current period by \$ 37,393. The expenses for the fund were similar to expenses in the prior period. The City refinanced debt related to the purchase of a fire truck in the current period.

Other governmental funds, including the debt service fund, ended the year with revenues exceeding expenditures. The debt service fund increased its fund equity to \$ 226,754 from \$ 221,455, a 2% increase.

Proprietary Funds – The proprietary funds – enterprise funds – are used to account for activities that are supported by charges for services rendered and are operated like a business. In each of the major enterprise funds, the revenues exceeded the expenses.



CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget reflected various supporting grants received for public works and community development projects in the City.

General Fund revenues fell short of the final amended budget by \$ 1,276. The decrease was the direct result of a reduction in tax revenue and intergovernmental support.

General Fund expenditures were more than final budgeted amounts. This amount, \$ 8,063, represents less than 1% of the general fund budget.

**CAPITAL ASSETS**

The City's investment in capital assets for its governmental and business-type activities at September 30, 2009 amounted to \$ 11,123,500 (net of accumulated depreciation). This investment in capital assets included land and right-of-way costs, construction in progress, buildings and improvements, equipment and infrastructure. Additional information on the City's capital assets can be found in the notes to the basic financial statements following this analysis.

| Capital Assets                |                            |                     |                             |                     |                      |                      |
|-------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
|                               | Governmental<br>Activities |                     | Business-type<br>Activities |                     | Total<br>Government  |                      |
|                               | 2009                       | 2008                | 2009                        | 2008                | 2009                 | 2008                 |
| Nondepreciable Assets         |                            |                     |                             |                     |                      |                      |
| Land                          | \$ 1,245,042               | \$ 957,456          | \$ 67,285                   | \$ 67,285           | \$ 1,312,327         | \$ 1,024,741         |
| Construction in Progress      | 145,141                    | 1,067,716           | -                           | 1,008,819           | 145,141              | 2,076,535            |
|                               |                            |                     |                             |                     |                      | -                    |
| Depreciable Assets            |                            |                     |                             |                     |                      |                      |
| Buildings and Improvements    | 1,863,657                  | 1,863,657           | 9,355,770                   | 7,803,190           | 11,219,427           | 9,666,847            |
| Equipment                     | 1,746,314                  | 1,418,366           | 353,072                     | 353,073             | 2,099,386            | 1,771,439            |
| Infrastructure                | 11,173,489                 | 9,967,023           | -                           | -                   | 11,173,489           | 9,967,023            |
| Total Capital Assets          | 16,173,643                 | 15,274,218          | 9,776,127                   | 9,232,367           | 25,949,770           | 24,506,585           |
| Less Accumulated Depreciation | (8,711,251)                | (7,990,503)         | (6,115,019)                 | (5,949,179)         | (14,826,270)         | (13,939,682)         |
| Net Capital Assets            | <u>\$ 7,462,392</u>        | <u>\$ 7,283,715</u> | <u>\$ 3,661,108</u>         | <u>\$ 3,283,188</u> | <u>\$ 11,123,500</u> | <u>\$ 10,566,903</u> |

CITY OF FARMERSVILLE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2009

**LONG-TERM OBLIGATIONS**

The City's governmental activities long-term obligations, including bonds, capital leases and loans, totaled \$ 4,597,819 at September 30, 2009. This number represents a total decrease of \$ 212,424 during the year. The City has no business-type activities long-term obligations at September 30, 2009. Additional information on the City's long-term obligations can be found in the notes to the basic financial statements following this analysis.

| Long Term Obligations |                            |                     |                             |             |                     |                     |
|-----------------------|----------------------------|---------------------|-----------------------------|-------------|---------------------|---------------------|
|                       | Governmental<br>Activities |                     | Business-type<br>Activities |             | Total<br>Government |                     |
|                       | 2009                       | 2008                | 2009                        | 2008        | 2009                | 2008                |
| Bonds                 | \$ 4,100,000               | \$ 4,265,000        | \$ -                        | \$ -        | \$ 4,100,000        | \$ 4,265,000        |
| Capital Leases        | 489,914                    | 536,873             | -                           | -           | 489,914             | 536,873             |
| Other                 | 7,905                      | 8,370               | -                           | -           | 7,905               | 8,370               |
| <b>Total</b>          | <b>\$ 4,597,819</b>        | <b>\$ 4,810,243</b> | <b>\$ -</b>                 | <b>\$ -</b> | <b>\$ 4,597,819</b> | <b>\$ 4,810,243</b> |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the adopted budget, the City Council and the city administration set the direction of the City, allocate its resources and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government, as well as user charges for the utilities are evaluated and, if necessary, adjusted to meet the needs of the operations of the systems. The budget is then adopted and a tax rate is approved to meet the demands of the budget.

For the fiscal year (FY) 2010, the net taxable property value increased by 2.3%, from \$ 149,836,429 in FY 2009 to \$ 153,369,619 in FY 2010. The overall property tax rate was increased by 1.22%, from \$ 0.578958 in FY 2009 to \$ 0.586109 in FY 2010.

Growth in the tax base valuation and the slightly increased tax rate resulted in a 3.5% increase in the overall tax levy, from \$ 867,490 in FY 2009 to \$ 898,913 in FY 2010.

Overall, total budgeted expenditures in all operating funds increased 2.09%, from \$ 4,657,505 in FY 2009 to \$ 4,756,926 in FY 2010. The overall increase in budgeted expenditures was primarily due to the increasing costs of services.

The FY 2010 budgeted expenditures were entirely covered by budgeted revenues, and no use of fund balances or working capital was included in the adopted budget.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Moran, City Manager for the City.

BASIC FINANCIAL STATEMENTS

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2009

|   | Governmental<br>Activities | Business-type<br>Activities | Total                |
|---|----------------------------|-----------------------------|----------------------|
| <b>ASSETS</b>                                   |                            |                             |                      |
| Cash and Investments                            | \$ 2,956,332               | \$ 1,657,005                | \$ 4,613,337         |
| Accounts Receivable, net                        | -                          | 153,642                     | 153,642              |
| Taxes Receivable, net                           | 159,079                    | -                           | 159,079              |
| Other Receivables                               | 252,902                    | 2,530                       | 255,432              |
| Due from Other Governments                      | 2,785                      | 92,477                      | 95,262               |
| Capital Bond Issuance Costs                     | 52,272                     | -                           | 52,272               |
| Restricted Cash                                 | -                          | 71,058                      | 71,058               |
| Capital Assets, net                             |                            |                             |                      |
| Nondepreciable                                  | 1,390,183                  | 67,285                      | 1,457,468            |
| Depreciable                                     | 6,072,209                  | 3,593,823                   | 9,666,032            |
| Total Assets                                    | <u>\$ 10,885,762</u>       | <u>\$ 5,637,820</u>         | <u>\$ 16,523,582</u> |
| <b>LIABILITIES</b>                              |                            |                             |                      |
| Accounts Payable                                | \$ 126,911                 | \$ 40,813                   | \$ 167,724           |
| Accrued Wages Payable                           | 13,439                     | 1,429                       | 14,868               |
| Interest Payable                                | 23,683                     | -                           | 23,683               |
| Customer Deposits                               | -                          | 127,673                     | 127,673              |
| Deferred Revenue                                | 8,600                      | -                           | 8,600                |
| Non-Current Liabilities                         |                            |                             |                      |
| Due within one year                             | 247,704                    | -                           | 247,704              |
| Due in more than one year                       | 4,350,114                  | -                           | 4,350,114            |
| Total Liabilities                               | <u>\$ 4,770,451</u>        | <u>\$ 169,915</u>           | <u>\$ 4,940,366</u>  |
| <b>NET ASSETS</b>                               |                            |                             |                      |
| Invested in Capital Assets, net of related debt | \$ 4,008,778               | \$ 3,661,108                | \$ 7,669,886         |
| Restricted for:                                 |                            |                             |                      |
| Debt Service                                    | 224,947                    | -                           | 224,947              |
| Other Purposes                                  | 712,630                    | -                           | 712,630              |
| Unrestricted                                    | 1,168,956                  | 1,806,797                   | 2,975,753            |
| Total Net Assets                                | <u>\$ 6,115,311</u>        | <u>\$ 5,467,905</u>         | <u>\$ 11,583,216</u> |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2009

| Functions / Programs                        | Expenses            | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                       |
|---|---------------------|-------------------------|--|--|--|-----------------------------|-----------------------|
|   |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                         | Business-type<br>Activities | Total                 |
|   |                     |                         |  |  |  |                             |                       |
| <b>Governmental Activities:</b>             |                     |                         |  |  |  |                             |                       |
| Mayor and City Council Administration       | \$ 10,569           | \$ -                    | \$ -                                     | \$ -                                   | \$ (10,569)  | \$ -                        | \$ (10,569)           |
| Municipal Court                             | 661,706             | 84,316                  | -  | -                                      | (577,390)  | -                           | (577,390)             |
| Library and Civic Center                    | 97,077              | 135,281                 | -  | -                                      | 38,204   | -                           | 38,204                |
| Police                                      | 143,015             | 15,774                  | -  | -                                      | (127,241)  | -                           | (127,241)             |
| Fire  | 701,252             | 222,159                 | 27,004                                   | -                                      | (452,089)  | -                           | (452,089)             |
| Public Works                                | 153,323             | 144,287                 | -  | 192,597                                | 183,561  | -                           | 183,561               |
| Super Series                                | 1,211,841           | 12,600                  | -  | -                                      | (1,199,241)  | -                           | (1,199,241)           |
| Community Development                       | 21,036              | 27,451                  | -  | -                                      | 6,415  | -                           | 6,415                 |
| Economic Development                        | 74,326              | 50,941                  | 203,812                                  | 332,320                                | 512,747  | -                           | 512,747               |
| Debt Service                                | 238,778             | 4,350                   | 119,665                                  | -                                      | (114,763)  | -                           | (114,763)             |
|   | 203,911             | -                       | -  | -                                      | (203,911)  | -                           | (203,911)             |
| <b>Total Governmental Activities</b>        | <b>\$ 3,516,834</b> | <b>\$ 697,159</b>       | <b>\$ 350,481</b>                        | <b>\$ 524,917</b>                      | <b>\$ (1,944,277)</b>                              | <b>\$ -</b>                 | <b>\$ (1,944,277)</b> |
| <b>Business-type Activities:</b>            |                     |                         |  |  |  |                             |                       |
| Water and Wastewater                        | \$ 955,648          | \$ 1,148,214            | \$ 147,853                               | \$ 181,047                             | \$ -   | \$ 521,466                  | \$ 521,466            |
| Electric                                    | 44,482              | -                       | 554,922                                  | -                                      | -  | 510,440                     | 510,440               |
| Refuse                                      | 357,135             | 392,606                 | -  | -                                      | -  | 35,471                      | 35,471                |
| <b>Total Business-type Activities</b>       | <b>\$ 1,357,265</b> | <b>\$ 1,540,820</b>     | <b>\$ 702,775</b>                        | <b>\$ 181,047</b>                      | <b>\$ -</b>  | <b>\$ 1,067,377</b>         | <b>\$ 1,067,377</b>   |
| <b>Total Primary Government</b>             | <b>\$ 4,874,099</b> | <b>\$ 2,237,979</b>     | <b>\$ 1,053,256</b>                      | <b>\$ 705,964</b>                      | <b>\$ (1,944,277)</b>                              | <b>\$ 1,067,377</b>         | <b>\$ (876,900)</b>   |
| <b>General Revenues:</b>                    |                     |                         |  |  |  |                             |                       |
| Property Taxes                              |                     |                         |  |  | \$ 872,379   | \$ -                        | \$ 872,379            |
| Sales Taxes                                 |                     |                         |  |  | 252,992  | -                           | 252,992               |
| Beverage Taxes / Franchise Fees             |                     |                         |  |  | 57,672   | -                           | 57,672                |
| Investment Earnings                         |                     |                         |  |  | 30,352   | 9,699                       | 40,051                |
| Other Income                                |                     |                         |  |  | 104,291  | 33,217                      | 137,508               |
| Transfers                                   |                     |                         |  |  | 643,096  | (643,096)                   | -                     |
| <b>Total General Revenues and Transfers</b> |                     |                         |  |  | <b>\$ 1,960,782</b>                                | <b>\$ (600,180)</b>         | <b>\$ 1,360,602</b>   |
| <b>Change in Net Assets</b>                 |                     |                         |  |  | <b>\$ 16,505</b>                                   | <b>\$ 467,197</b>           | <b>\$ 483,702</b>     |
| <b>Net Assets - October 1 (Beginning)</b>   |                     |                         |  |  | <b>6,098,806</b>                                   | <b>5,000,708</b>            | <b>11,099,514</b>     |
| <b>Net Assets - September 30 (Ending)</b>   |                     |                         |  |  | <b>\$ 6,115,311</b>                                | <b>\$ 5,467,905</b>         | <b>\$ 11,583,216</b>  |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

|   | General             | Community/<br>Economic<br>Development | Special<br>Projects | Capital<br>Projects | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------------------------|---------------------|---------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>                             |                     |                                       |                     |                     |                                   |                                |
| Cash and Investments                      | \$ 756,176          | \$ 693,889                            | \$ 145,736          | \$ 1,105,650        | \$ 254,883                        | \$ 2,956,334                   |
| Receivables:                              |                     |                                       |                     |                     |                                   |                                |
| Sales Taxes                               | 39,298              | 39,298                                | -                   | -                   | -                                 | 78,596                         |
| Property Taxes                            | 66,689              | -                                     | -                   | -                   | 22,738                            | 89,427                         |
| Less: Allowance for Uncollectibles        | (6,669)             | -                                     | -                   | -                   | (2,274)                           | (8,943)                        |
| Fines                                     | 336,280             | -                                     | -                   | -                   | 99                                | 336,379                        |
| Less: Allowance for Uncollectibles        | (84,070)            | -                                     | -                   | -                   | -                                 | (84,070)                       |
| Due from Other Governments                | 285                 | -                                     | -                   | -                   | 2,500                             | 2,785                          |
| Other Receivables                         | 560                 | 32                                    | -                   | -                   | -                                 | 592                            |
| Due from Other Funds                      | -                   | 2,500                                 | -                   | -                   | -                                 | 2,500                          |
| <b>Total Assets</b>                       | <b>\$ 1,108,549</b> | <b>\$ 735,719</b>                     | <b>\$ 145,736</b>   | <b>\$ 1,105,650</b> | <b>\$ 277,946</b>                 | <b>\$ 3,373,600</b>            |
| <b>LIABILITIES AND FUND BALANCE</b>       |                     |                                       |                     |                     |                                   |                                |
| <b>LIABILITIES</b>                        |                     |                                       |                     |                     |                                   |                                |
| Accounts Payable                          | \$ 78,188           | \$ 23,089                             | \$ 11,918           | \$ 13,717           | \$ -                              | \$ 126,912                     |
| Accrued Wages Payable                     | 13,439              | -                                     | -                   | -                   | -                                 | 13,439                         |
| Due to Other Funds                        | 2,500               | -                                     | -                   | -                   | -                                 | 2,500                          |
| Deferred Revenue                          | 312,230             | -                                     | -                   | -                   | 29,064                            | 341,294                        |
| <b>Total Liabilities</b>                  | <b>\$ 406,357</b>   | <b>\$ 23,089</b>                      | <b>\$ 11,918</b>    | <b>\$ 13,717</b>    | <b>\$ 29,064</b>                  | <b>\$ 484,145</b>              |
| <b>FUND BALANCE</b>                       |                     |                                       |                     |                     |                                   |                                |
| Invested Reserves for:                    |                     |                                       |                     |                     |                                   |                                |
| Retirement of Funded Indebtedness         | \$ -                | \$ -                                  | \$ -                | \$ -                | \$ 226,754                        | \$ 226,754                     |
| Capital Projects                          | -                   | -                                     | 133,818             | 1,091,933           | -                                 | 1,225,751                      |
| Unreserved - undesignated, reported in:   |                     |                                       |                     |                     |                                   |                                |
| General Fund                              | 702,192             | -                                     | -                   | -                   | -                                 | 702,192                        |
| Special Revenue Funds                     | -                   | 712,630                               | -                   | -                   | 22,128                            | 734,758                        |
| <b>Total Fund Balance</b>                 | <b>\$ 702,192</b>   | <b>\$ 712,630</b>                     | <b>\$ 133,818</b>   | <b>\$ 1,091,933</b> | <b>\$ 248,882</b>                 | <b>\$ 2,889,455</b>            |
| <b>Total Liabilities and Fund Balance</b> | <b>\$ 1,108,549</b> | <b>\$ 735,719</b>                     | <b>\$ 145,736</b>   | <b>\$ 1,105,650</b> | <b>\$ 277,946</b>                 | <b>\$ 3,373,600</b>            |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2009

|  |    |                         |
|--|----|-------------------------|
| Total fund balance - governmental funds  | \$ | 2,889,455               |
| Amounts reported for governmental activities in the<br>statement of net assets are different because:  |    |                         |
| Capital assets (net of accumulated depreciation) used in governmental<br>activities are not current financial resources and therefore not<br>reported in the balance sheet |    | 7,462,392               |
| Other assets are not available to pay current period expenditures<br>and therefore are deferred in the funds and recognized as<br>revenue in the statement of activities   |    | 332,693                 |
| Interest payable on noncurrent liabilities are not due and payable<br>in the current period and are not reported in the funds  |    | (23,683)                |
| Noncurrent liabilities are not due and payable in the current period<br>and therefore not reported in the funds as follows:  |    |                         |
| Bonds  |    | (4,100,000)             |
| Leases   |    | (489,913)               |
| Unamortized Bond Premium   |    | (7,905)                 |
| Other long term assets are not available to pay for current period<br>expenditures and are deferred in the funds.  |    | <u>52,272</u>           |
| Total net assets - governmental activities (Exhibit A-1)   | \$ | <u><u>6,115,311</u></u> |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2009

|   | General             | Community/<br>Economic<br>Development | Special<br>Projects | Capital<br>Projects | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------------------------|---------------------|---------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>   |                     |                                       |                     |                     |                                   |                                |
| Taxes and Franchise Fees  | \$ 941,136          | \$ 239,330                            | \$ -                | \$ -                | \$ 232,687                        | \$ 1,413,153                   |
| Licenses and Permits  | 45,589              | -                                     | -                   | -                   | -                                 | 45,589                         |
| Fines   | 145,428             | -                                     | -                   | -                   | -                                 | 145,428                        |
| Service Fees  | 127,836             | -                                     | -                   | -                   | 9,168                             | 137,004                        |
| Miscellaneous   | 155,206             | 3,848                                 | -                   | -                   | 1,288                             | 160,342                        |
| Interest Income   | 8,706               | 5,963                                 | -                   | 12,972              | 2,711                             | 30,352                         |
| InterGovernmental Support   | 132,339             | -                                     | 332,320             | -                   | 269,601                           | 734,260                        |
| <b>Total Revenues</b>   | <b>\$ 1,556,240</b> | <b>\$ 249,141</b>                     | <b>\$ 332,320</b>   | <b>\$ 12,972</b>    | <b>\$ 515,455</b>                 | <b>\$ 2,666,128</b>            |
| <b>EXPENDITURES</b>   |                     |                                       |                     |                     |                                   |                                |
| Current:  |                     |                                       |                     |                     |                                   |                                |
| Mayor and City Council  | \$ 10,569           | \$ -                                  | \$ -                | \$ -                | \$ -                              | \$ 10,569                      |
| Administration  | 674,147             | -                                     | -                   | -                   | 1,750                             | 675,897                        |
| Municipal Court   | 90,848              | -                                     | -                   | -                   | 6,229                             | 97,077                         |
| Library and Civic Center  | 139,533             | -                                     | -                   | -                   | -                                 | 139,533                        |
| Police  | 667,839             | -                                     | -                   | -                   | 32,345                            | 700,184                        |
| Fire and Emergency Medical Service  | 108,426             | -                                     | -                   | -                   | 192,597                           | 301,023                        |
| Public Works  | 617,516             | -                                     | 198,502             | 443,235             | -                                 | 1,259,253                      |
| Super Series  | 21,036              | -                                     | -                   | -                   | -                                 | 21,036                         |
| Community Development   | -                   | 116,075                               | -                   | -                   | 48,250                            | 164,325                        |
| Economic Development  | -                   | 122,704                               | -                   | -                   | -                                 | 122,704                        |
| Debt Service  | 99,509              | -                                     | -                   | -                   | 347,118                           | 446,627                        |
| <b>Total Expenditures</b>   | <b>\$ 2,429,423</b> | <b>\$ 238,779</b>                     | <b>\$ 198,502</b>   | <b>\$ 443,235</b>   | <b>\$ 628,289</b>                 | <b>\$ 3,938,228</b>            |
| <b>OTHER RESOURCES (USES)</b>   |                     |                                       |                     |                     |                                   |                                |
| Transfers In  | \$ 821,342          | \$ -                                  | \$ -                | \$ -                | \$ 117,019                        | \$ 938,361                     |
| Lease Purchase Proceeds   | 419,569             | -                                     | -                   | -                   | -                                 | 419,569                        |
| Transfers Out   | -                   | -                                     | -                   | (295,265)           | -                                 | (295,265)                      |
| Capital Lease Refunding   | (405,121)           | -                                     | -                   | -                   | -                                 | (405,121)                      |
| <b>Total Other Resources (Uses)</b>   | <b>\$ 835,790</b>   | <b>\$ -</b>                           | <b>\$ -</b>         | <b>\$ (295,265)</b> | <b>\$ 117,019</b>                 | <b>\$ 657,544</b>              |
| <b>Excess (Deficiency) of Revenues<br/>and Other Resources Over<br/>Expenditures and Other Uses</b> | <b>\$ (37,393)</b>  | <b>\$ 10,362</b>                      | <b>\$ 133,818</b>   | <b>\$ (725,528)</b> | <b>\$ 4,185</b>                   | <b>\$ (614,556)</b>            |
| Fund Balance - October 1 (Beginning)  | 739,586             | 702,268                               | -                   | 1,817,461           | 244,696                           | 3,504,011                      |
| Fund Balance - September 30 (Ending)  | <u>\$ 702,193</u>   | <u>\$ 712,630</u>                     | <u>\$ 133,818</u>   | <u>\$ 1,091,933</u> | <u>\$ 248,881</u>                 | <u>\$ 2,889,455</u>            |

The accompanying notes are an integral part of this statement.



CITY OF FARMERSVILLE, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND EQUITY OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED SEPTEMBER 30, 2009

|   |    |           |
|---|----|-----------|
| Net change in fund equity - total governmental funds  | \$ | (614,556) |
| Amounts reported for governmental activities in the statement of net assets are different because:  |    |           |
| Capital asset cost is allocated over the estimated useful life and reported as depreciation in the statement of activities  |    | (720,748) |
| Acquisition of capital assets requires the use of current financial resources but has no effect on net assets   |    | 899,425   |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds   |    | 224,116   |
| Proceeds from debt issued are other resources in the funds but liabilities in the statement of net assets   |    | (419,569) |
| Repayment of debt principal is an expenditure in the funds but the payments reduce liabilities in the statement of net assets.  |    |           |
| Debt principal payments are as follows:   |    |           |
| Bonds   |    | 165,000   |
| Leases  |    | 466,528   |
| Bond issuance costs are amortized in the statement of activities but not in the funds   |    | (3,128)   |
| Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds |    | 19,437    |
| Change in net assets of governmental activities   | \$ | 16,505    |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
SEPTEMBER 30, 2009

|                                | Water/<br>Wastewater<br>Utility | Electric<br>Utility | Refuse<br>Utility | Nonmajor<br>Proprietary<br>Funds | Total               |
|--------------------------------|---------------------------------|---------------------|-------------------|----------------------------------|---------------------|
| <b>ASSETS</b>                  |                                 |                     |                   |                                  |                     |
| <b>Current Assets</b>          |                                 |                     |                   |                                  |                     |
| Cash and Investments           | \$ 1,313,352                    | \$ 326,156          | \$ 147,112        | \$ (58,557)                      | \$ 1,728,063        |
| Receivables                    |                                 |                     |                   |                                  |                     |
| Services                       | 117,445                         | -                   | 36,197            | -                                | 153,642             |
| Other                          | -                               | -                   | 2,530             | 92,477                           | 95,007              |
| <b>Total Current Assets</b>    | <b>\$ 1,430,797</b>             | <b>\$ 326,156</b>   | <b>\$ 185,839</b> | <b>\$ 33,920</b>                 | <b>\$ 1,976,712</b> |
| <b>Capital Assets</b>          |                                 |                     |                   |                                  |                     |
| Land                           | \$ 65,285                       | \$ 2,000            | \$ -              | \$ -                             | \$ 67,285           |
| Buildings and Improvements     | 6,170,694                       | -                   | -                 | -                                | 6,170,694           |
| Equipment                      | 202,163                         | 3,133,710           | 37,500            | 164,776                          | 3,538,149           |
| Less: Accumulated Depreciation | (2,940,376)                     | (3,133,710)         | (37,500)          | (3,433)                          | (6,115,019)         |
| <b>Capital Assets, net</b>     | <b>\$ 3,497,766</b>             | <b>\$ 2,000</b>     | <b>\$ -</b>       | <b>\$ 161,343</b>                | <b>\$ 3,661,109</b> |
| <b>Total Assets</b>            | <b>\$ 4,928,563</b>             | <b>\$ 328,156</b>   | <b>\$ 185,839</b> | <b>\$ 195,263</b>                | <b>\$ 5,637,821</b> |
| <b>LIABILITIES</b>             |                                 |                     |                   |                                  |                     |
| <b>Current Liabilities</b>     |                                 |                     |                   |                                  |                     |
| Accounts Payable               | \$ 1,789                        | \$ 587              | \$ 38,438         | \$ -                             | \$ 40,814           |
| Accrued Wages Payable          | 1,429                           | -                   | -                 | -                                | 1,429               |
| Customer Deposits              | 51,600                          | 76,072              | -                 | -                                | 127,672             |
| <b>Total Liabilities</b>       | <b>\$ 54,818</b>                | <b>\$ 76,659</b>    | <b>\$ 38,438</b>  | <b>\$ -</b>                      | <b>\$ 169,915</b>   |
| <b>NET ASSETS</b>              |                                 |                     |                   |                                  |                     |
| Invested in Capital Assets     | \$ 3,497,766                    | \$ 2,000            | \$ -              | \$ 161,343                       | \$ 3,661,109        |
| Unrestricted                   | 1,375,979                       | 249,497             | 147,401           | 33,921                           | 1,806,798           |
| <b>Total Net Assets</b>        | <b>\$ 4,873,745</b>             | <b>\$ 251,497</b>   | <b>\$ 147,401</b> | <b>\$ 195,264</b>                | <b>\$ 5,467,907</b> |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2009

|   | Water/<br>Wastewater<br>Utility | Electric<br>Utility | Refuse<br>Utility  | Nonmajor<br>Proprietary<br>Funds | Total               |
|---|---------------------------------|---------------------|--------------------|----------------------------------|---------------------|
| <b>OPERATING REVENUES</b>                     |                                 |                     |                    |                                  |                     |
| Utility Sales                                 | \$ 1,088,113                    | \$ -                | \$ -               | \$ -                             | \$ 1,088,113        |
| Service Fees                                  | -                               | -                   | 392,606            | -                                | 392,606             |
| Reconnects and Other                          | 60,101                          | 33,218              | -                  | -                                | 93,319              |
| Management Fees                               | -                               | 554,922             | -                  | -                                | 554,922             |
| <b>Total Operating Revenues</b>               | <b>\$ 1,148,214</b>             | <b>\$ 588,140</b>   | <b>\$ 392,606</b>  | <b>\$ -</b>                      | <b>\$ 2,128,960</b> |
| <b>OPERATING EXPENSES</b>                     |                                 |                     |                    |                                  |                     |
| Payroll                                       | \$ 139,544                      | \$ -                | \$ 308,444         | \$ -                             | \$ 447,988          |
| Professional Services                         | 16,654                          | -                   | -                  | -                                | 16,654              |
| Maintenance                                   | 262,624                         | 44,482              | -                  | -                                | 307,106             |
| Operations                                    | 40,028                          | -                   | 4,055              | -                                | 44,083              |
| Supplies                                      | 290,178                         | -                   | -                  | -                                | 290,178             |
| Miscellaneous                                 | 40,479                          | -                   | 44,636             | -                                | 85,115              |
| Depreciation                                  | 162,407                         | -                   | -                  | 3,433                            | 165,840             |
| Debt Service                                  | 300                             | -                   | -                  | -                                | 300                 |
| <b>Total Operating Expenses</b>               | <b>\$ 952,214</b>               | <b>\$ 44,482</b>    | <b>\$ 357,135</b>  | <b>\$ 3,433</b>                  | <b>\$ 1,357,264</b> |
| <b>Operating Income (Loss)</b>                | <b>\$ 196,000</b>               | <b>\$ 543,658</b>   | <b>\$ 35,471</b>   | <b>\$ (3,433)</b>                | <b>\$ 771,696</b>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>       |                                 |                     |                    |                                  |                     |
| Interest Earned                               | \$ 7,640                        | \$ 1,446            | \$ 613             | \$ -                             | \$ 9,699            |
| Developer Fees                                | 147,853                         | -                   | -                  | -                                | 147,853             |
| Grant Proceeds                                | -                               | -                   | -                  | 181,047                          | 181,047             |
| <b>Total Nonoperating Revenues (Expenses)</b> | <b>\$ 155,493</b>               | <b>\$ 1,446</b>     | <b>\$ 613</b>      | <b>\$ 181,047</b>                | <b>\$ 338,599</b>   |
| <b>Income (Loss) before Transfers</b>         | <b>\$ 351,493</b>               | <b>\$ 545,104</b>   | <b>\$ 36,084</b>   | <b>\$ 177,614</b>                | <b>\$ 1,110,295</b> |
| Operating Transfers In                        | 295,265                         | -                   | -                  | -                                | 295,265             |
| Operating Transfers (Out)                     | (308,877)                       | (556,346)           | (73,138)           | -                                | (938,361)           |
| <b>Change in Net Assets</b>                   | <b>\$ 337,881</b>               | <b>\$ (11,242)</b>  | <b>\$ (37,054)</b> | <b>\$ 177,614</b>                | <b>\$ 467,199</b>   |
| <b>Net Assets - October 1 (Beginning)</b>     | <b>4,535,864</b>                | <b>262,739</b>      | <b>184,455</b>     | <b>17,650</b>                    | <b>5,000,708</b>    |
| <b>Net Assets - September 30 (Ending)</b>     | <b>\$ 4,873,745</b>             | <b>\$ 251,497</b>   | <b>\$ 147,401</b>  | <b>\$ 195,264</b>                | <b>\$ 5,467,907</b> |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2009

|  | Water/<br>Wasterwater<br>Utility | Electric<br>Utility | Refuse<br>Utility  | Nonmajor<br>Proprietary<br>Funds | Total               |
|--|----------------------------------|---------------------|--------------------|----------------------------------|---------------------|
| <b>Cash Flows from Operating Activities:</b>   |                                  |                     |                    |                                  |                     |
| Cash Received from Management Contract   | \$ -                             | \$ 554,922          | \$ -               | \$ -                             | \$ 554,922          |
| Cash Received from Customers   | 1,160,435                        | 33,218              | 401,976            | -                                | 1,595,629           |
| Cash Payments for Goods and Services   | (704,233)                        | (43,895)            | (29,263)           | -                                | (777,391)           |
| Cash Payments to Employees for Services  | (142,737)                        | -                   | (308,444)          | -                                | (451,181)           |
| Net Cash Provided by (Used for) Operating Activities   | <u>\$ 313,465</u>                | <u>\$ 544,245</u>   | <u>\$ 64,269</u>   | <u>\$ -</u>                      | <u>\$ 921,979</u>   |
| <b>Cash Flows from Noncapital Financing Activities:</b>  |                                  |                     |                    |                                  |                     |
| Operating Transfers In (Out)   | \$ (13,612)                      | \$ (556,346)        | \$ (73,138)        | \$ -                             | \$ (643,096)        |
| (Increase) Decrease for Restricted Assets  | 627,742                          | 71,058              | -                  | -                                | 698,800             |
| Increase (Decrease) for Customer Deposits  | 700                              | -                   | -                  | -                                | 700                 |
| Net Cash Provided by (Used for) Noncapital Financing Activities  | <u>\$ 614,830</u>                | <u>\$ (485,288)</u> | <u>\$ (73,138)</u> | <u>\$ -</u>                      | <u>\$ 56,404</u>    |
| <b>Cash Flows from Capital and Related Financing Activities:</b>   |                                  |                     |                    |                                  |                     |
| Developer Fees   | \$ 147,853                       | \$ -                | \$ -               | \$ -                             | \$ 147,853          |
| Grant Proceeds   | -                                | -                   | -                  | 106,219                          | 106,219             |
| (Purchase) Retirement of Property or Equipment   | (396,635)                        | -                   | -                  | (147,126)                        | (543,761)           |
| Net Cash Provided by (Used for) Capital and Related Financing Activities   | <u>\$ (248,782)</u>              | <u>\$ -</u>         | <u>\$ -</u>        | <u>\$ (40,907)</u>               | <u>\$ (289,689)</u> |
| <b>Cash Flows from Investing Activities:</b>   |                                  |                     |                    |                                  |                     |
| Interest Received  | \$ 7,640                         | \$ 1,446            | \$ 613             | \$ -                             | \$ 9,699            |
| Net Cash Provided by (Used for) Investing Activities   | <u>\$ 7,640</u>                  | <u>\$ 1,446</u>     | <u>\$ 613</u>      | <u>\$ -</u>                      | <u>\$ 9,699</u>     |
| Net Increase (Decrease) in Cash  | \$ 687,153                       | \$ 60,403           | \$ (8,256)         | \$ (40,907)                      | \$ 698,393          |
| Cash and Investments - October 1 (Beginning)   | <u>626,199</u>                   | <u>265,753</u>      | <u>155,368</u>     | <u>(17,650)</u>                  | <u>1,029,670</u>    |
| Cash and Investments - September 30 (Ending)   | <u>\$ 1,313,352</u>              | <u>\$ 326,156</u>   | <u>\$ 147,112</u>  | <u>\$ (58,557)</u>               | <u>\$ 1,728,063</u> |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>        |                                  |                     |                    |                                  |                     |
| Operating Income (Loss)  | \$ 196,000                       | \$ 543,658          | \$ 35,471          | \$ (3,433)                       | \$ 771,696          |
| <b>Adjustments to reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b> |                                  |                     |                    |                                  |                     |
| Depreciation Expense   | 162,407                          | -                   | -                  | 3,433                            | 165,840             |
| Changes in Assets and Liabilities:   |                                  |                     |                    |                                  |                     |
| Receivables  | 12,221                           | -                   | 9,370              | -                                | 21,591              |
| Accounts Payable   | (57,163)                         | 587                 | 19,428             | -                                | (37,148)            |
| Net Cash Provided by (Used for) Operating Activities   | <u>\$ 313,465</u>                | <u>\$ 544,245</u>   | <u>\$ 64,269</u>   | <u>\$ -</u>                      | <u>\$ 921,979</u>   |

The accompanying notes are an integral part of this statement.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies

Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Farmersville, Texas (City), the primary government, and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The component units described below are each legally separate from the City, but are so intertwined with the City that they are, in substance, the same as the City. They are reported as part of and accountable to the City and blended into the government-wide and fund financial statements.

Farmersville Economic Development Corporation (4A), a not-for-profit organization created to finance economic development within the City of Farmersville. Financial data of the corporation is blended into the governmental funds of the City.

Farmersville Community Development Corporation (4B), a not-for-profit organization created to finance community development within the City of Farmersville. Financial data of the corporation is blended into the governmental funds of the City.

Basic Financial Statements

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. 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. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies (Continued)

The government-wide Statement of Net Assets reports all financial and capital resources to the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) external imposition by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposition by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various function and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other nonmajor funds are combined in a single column on the fund financial statements.

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 general government, except those required to be accounted for in another fund.

The *Community/Economic Development Fund* accounts for sales taxes collected for community and economic development in the City. The voters designated a percentage of the local sales tax for community and economic development. Non-profit corporations control the activities of these funds.

The *Capital Projects Fund* accounts for the proceeds from the issuance of Series 2005 and Series 2006 Certificates of Obligation. The proceeds are being used to construct various capital improvements in the City. The proceeds, along with interest earnings, are to be used to complete the projects.

The *Special Projects Fund* accounts for grant activities where other governments fund activities with the City. The grant funds are restricted for specific projects in the City.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies (Continued)

The City reports the following major enterprise funds:

The *Water/Wastewater Utility Fund* accounts for the operation of the City's water and wastewater utility, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Farmersville.

The *Electric Utility Fund* accounts for the operation of the City's electric distribution activity. The City leases the distribution system to a third party provider and receives a management fee in return.

The *Refuse Fund* accounts for the operation of the City's sanitation program, a self-supporting activity, which provides for the collection and disposal of solid waste on a user charge basis to residents and businesses located in Farmersville.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, licenses, fees and permits, intergovernmental revenues, charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies (Continued)

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 20, 1989.

Cash and Investments

The City pools available cash from all funds for the purpose of increasing income through investment activities. Investments in U.S. government and agency securities are carried at fair value based on market prices. The City's investment in the Texas Local Government Pool (TexPool) and TexStar are carried at fair value based on the value of each participating dollar as provided by TexPool. Interest income, which includes changes in fair value, on investments is allocated to all funds.

For purposes of the basic financial statements, the City considers investments to be highly liquid short-term investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Cash and investments include the City's cash and investment pool deposit balances.



CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies (Continued)

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

|  |              |
|--|--------------|
| Buildings, Structures and Improvements | 20-50 years  |
| Utility Plant                          | 10-40 years  |
| Equipment Including Vehicles           | 5-20 years   |
| Infrastructure                         | 15-100 years |

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation), as of the date of the transfer.

Pension Plan

Full-time City employees are members of the Texas Municipal Retirement System (System). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of April 1 by the System's actuary.

Fund Balances

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

Budgetary Principles

The City is required by law to adopt an annual budget on or before the 1<sup>st</sup> day of its fiscal year. The General and Debt Service governmental fund types have legally adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. Throughout the fiscal year, the budget was amended to add supplementary appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget. The City Manager has the authority to change individual budget line items within a department as long as the total department's appropriation amount is not changed.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and other major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the City to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The City levied taxes within the City at \$ 0.425396 to fund general operations and \$ 0.153562 for the payment of principal and interest on long term debt on property valued at \$ 174,509,334.

Revenue Recognition for Utility Funds

Revenue is recorded in the period in which services are provided. As such, revenue is recorded as billed to customer on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual result could differ from those estimates.

B. Cash and Investments

The City's funds are deposited and invested under the terms of a depository agreement. The agreement requires the depository to pledge approved securities in an amount significant to protect the City's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At various times during the year, and at September 30, 2009, the City cash deposits do not appear to have been properly secured by FDIC insurance or by pledged collateral held by the City or the depository in the City's name.

The City's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The City appears to have been in substantial compliance with the requirements of the Act.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

B. Cash and Investments (Continued)

State statutes and local policy authorize the City to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or securitized certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

City investments include deposits in external investment pools, such as TexSTAR and Texpool. All TexSTAR and Texpool investments are reported at share price (fair value) and are presented as cash and investments.

Texas Local Government Investment Pool (TexPool) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, (Trust Company), which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

The fund is rated AAAM by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's. This rating as well as the operational policies and procedures allow the fund to comply with the requirements of the Public Funds Investment Act.

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (Board). JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

B. Cash and Investments (Continued)

The Board may establish separate Funds within TexSTAR from time to time. Participants choose the Funds in which their deposits are invested. Participants' assets in the Funds are represented by units of beneficial interest (units). The Board may issue an unlimited number of units in each Fund.

TexSTAR is rated AAAM by Standard & Poor's rating agency. This rating and the fund's operational settings allow the fund to comply with the requirement of the Public Funds Investment Act.

The following table categorizes the City's investment at September 30, 2009.

|                                    | <u>Credit<br/>Rating</u> | <u>Fair<br/>Value</u> |
|------------------------------------|--------------------------|-----------------------|
| Texpool                            | AAAM                     | \$ 2,218,672          |
| TexSTAR                            | AAAM                     | 1,100,650             |
| First Bank Certificates of Deposit | n/a                      | <u>849,179</u>        |
| Total                              |                          | <u>\$ 4,168,501</u>   |

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

C. Capital Assets

Capital asset activities for the year ended September 30, 2009, were as follows:

|                                | Beginning<br>Balance | Additions           | Deletions           | Ending<br>Balance    |
|--------------------------------|----------------------|---------------------|---------------------|----------------------|
| Governmental Activities        |                      |                     |                     |                      |
| Nondepreciable Assets:         |                      |                     |                     |                      |
| Land                           | \$ 957,456           | \$ 287,586          | \$ -                | \$ 1,245,042         |
| Construction in Progress       | 1,067,716            | 160,057             | 1,082,632           | 145,141              |
| Total                          | <u>\$ 2,025,172</u>  | <u>\$ 447,643</u>   | <u>\$ 1,082,632</u> | <u>\$ 1,390,183</u>  |
| Depreciable Assets:            |                      |                     |                     |                      |
| Buildings & Improvements       | \$ 1,863,657         | \$ -                | \$ -                | \$ 1,863,657         |
| Equipment                      | 1,418,366            | 327,948             | -                   | 1,746,314            |
| Infrastructure                 | 9,967,023            | 1,206,466           | -                   | 11,173,489           |
| Total                          | <u>\$ 13,249,046</u> | <u>\$ 1,534,414</u> | <u>\$ -</u>         | <u>\$ 14,783,460</u> |
| Less Accumulated Depreciation  |                      |                     |                     |                      |
| Buildings & Improvements       | \$ 1,118,547         | \$ 39,338           | \$ -                | \$ 1,157,885         |
| Equipment                      | 722,313              | 137,164             | -                   | 859,477              |
| Infrastructure                 | 6,149,643            | 544,246             | -                   | 6,693,889            |
| Total                          | <u>\$ 7,990,503</u>  | <u>\$ 720,748</u>   | <u>\$ -</u>         | <u>\$ 8,711,251</u>  |
| Total Governmental Activities  |                      |                     |                     |                      |
| Capital Assets, net            | <u>\$ 7,283,715</u>  | <u>\$ 1,261,309</u> | <u>\$ 1,082,632</u> | <u>\$ 7,462,392</u>  |
| Business-type Activities       |                      |                     |                     |                      |
| Nondepreciable Assets:         |                      |                     |                     |                      |
| Land                           | \$ 67,285            | \$ -                | \$ -                | \$ 67,285            |
| Construction in Progress       | 1,008,819            | 412,831             | 1,421,650           | -                    |
| Total                          | <u>\$ 1,076,104</u>  | <u>\$ 412,831</u>   | <u>\$ 1,421,650</u> | <u>\$ 67,285</u>     |
| Depreciable Assets:            |                      |                     |                     |                      |
| Buildings & Improvements       | \$ 7,803,190         | \$ 1,552,580        | \$ -                | \$ 9,355,770         |
| Equipment                      | 353,072              | -                   | -                   | 353,072              |
| Total                          | <u>\$ 8,156,262</u>  | <u>\$ 1,552,580</u> | <u>\$ -</u>         | <u>\$ 9,708,842</u>  |
| Less Accumulated Depreciation  |                      |                     |                     |                      |
| Buildings & Improvements       | \$ 5,604,750         | \$ 161,697          | \$ -                | \$ 5,766,447         |
| Equipment                      | 344,429              | 4,143               | -                   | 348,572              |
| Total                          | <u>\$ 5,949,179</u>  | <u>\$ 165,840</u>   | <u>\$ -</u>         | <u>\$ 6,115,019</u>  |
| Total Business-type Activities |                      |                     |                     |                      |
| Capital Assets, net            | <u>\$ 3,283,187</u>  | <u>\$ 1,799,571</u> | <u>\$ 1,421,650</u> | <u>\$ 3,661,108</u>  |

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

C. Capital Assets (Continued)

Depreciation expenses were charged to functions/programs of the City as follows:

Governmental activities:

|                          |          |
|--------------------------|----------|
| Administration           | \$ 1,666 |
| Library and Civic Center | 3,482    |
| Police                   | 39,446   |
| Fire and Emergency       | 74,513   |
| Public Works             | 575,565  |
| Community Development    | 26,076   |

|       |                   |
|-------|-------------------|
| Total | <u>\$ 720,748</u> |
|-------|-------------------|

Business-type activities:

|                          |            |
|--------------------------|------------|
| Water/Wastewater Utility | \$ 165,840 |
| Electric Utility         | -          |
| Refuse Utility           | -          |

|       |                   |
|-------|-------------------|
| Total | <u>\$ 165,840</u> |
|-------|-------------------|

D. Long-Term Obligations

The following is a summary of changes in long term obligations reported in the government-wide financial statements for the year ended September 30, 2009:

|                          | Beginning<br>Balances | Additions<br>Increases | Reductions<br>Decreases | Ending<br>Balances  | Due Within<br>One Year |
|--------------------------|-----------------------|------------------------|-------------------------|---------------------|------------------------|
| Governmental activities: |                       |                        |                         |                     |                        |
| Bonds                    | \$ 4,265,000          | \$ -                   | \$ 165,000              | \$ 4,100,000        | \$ 170,000             |
| Unamortized Bond Premium | 8,370                 | -                      | 465                     | 7,905               | -                      |
| Capital Leases           | 95,323                | 419,569                | 24,978                  | 489,914             | 77,704                 |
| Notes                    | 441,550               | -                      | 441,550                 | -                   | -                      |
| Totals                   | <u>\$ 4,810,243</u>   | <u>\$ 419,569</u>      | <u>\$ 631,993</u>       | <u>\$ 4,597,819</u> | <u>\$ 247,704</u>      |

Governmental Activities

Bonds

At year end, the City had outstanding the following obligation bonds for acquisition and construction of capital improvements in the City. General obligation debt has been issued only for general government activities. As of September 30, 2009, the City has no proprietary activity long-term obligations.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

D. Long-Term Obligations (Continued)

General obligations bonds are direct obligations and pledge the full faith and credit of the City.

| Description  | Interest Rate | Original Issue | Outstanding         |
|--|---------------|----------------|---------------------|
| City of Farmersville, Texas<br>Tax and Utility System (Limited Pledge)<br>Revenue Certificate of Obligation,<br>Series 2005  | 4.10%         | \$ 1,020,000   | \$ 905,000          |
| City of Farmersville, Texas<br>Tax and Utility System (Limited Pledge)<br>Revenue Certificates of Obligation,<br>Series 2006 | 4.12%         | 3,500,000      | 3,195,000           |
| Total  |               |                | <u>\$ 4,100,000</u> |

Maturity requirements of the general obligation debt listed above are as follows:

| Year Ending<br>September 30 | Principal           | Interest            | Total<br>Requirements |
|-----------------------------|---------------------|---------------------|-----------------------|
| 2010                        | \$ 170,000          | \$ 174,103          | \$ 344,103            |
| 2011                        | 185,000             | 165,610             | 350,610               |
| 2012                        | 185,000             | 156,765             | 341,765               |
| 2013                        | 195,000             | 147,669             | 342,669               |
| 2014                        | 205,000             | 138,097             | 343,097               |
| 2015 - 2019                 | 1,150,000           | 541,140             | 1,691,140             |
| 2020 - 2024                 | 1,430,000           | 276,201             | 1,706,201             |
| 2025 - 2029                 | 580,000             | 23,319              | 603,319               |
| Totals                      | <u>\$ 4,100,000</u> | <u>\$ 1,622,904</u> | <u>\$ 5,722,904</u>   |

Capital Leases

The City is obligated for various payments under the following lease agreements. The lease agreements qualify as capital leases for accounting purposes as defined under Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*, and therefore have been recorded at the present value of future minimum lease payments at the date of inception of the lease. The leases relate to the following:

| Description/Payee                     | Date     | Interest Rate | Term      | Original<br>Lease Value |
|---------------------------------------|----------|---------------|-----------|-------------------------|
| Caterpillar Financial – Backhoe       | 11/15/05 | 4.30%         | 60 months | \$ 77,978               |
| First Bankers Corp. – Pumper Truck    | 09/25/04 | 4.72%         | 10 years  | 101,020                 |
| Government Capital Corp. – Fire Truck | 09/02/09 | 4.95%         | 9 years   | <u>419,569</u>          |
| Total                                 |          |               |           | <u>\$ 598,567</u>       |

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

D. Long Term Obligations (Continued)

The City executed a capital lease with Government Capital Corporation to refinance a 2007 Ferrara HME Fire Truck. The lease was dated September 2, 2009 in the amount of \$ 419,569 and will incur interest over the 9 year life of the lease at 4.95%. The lease requires annual principal and interest payments and will fully mature on December 1, 2017.

Future minimum lease payments to be made under these lease agreements are as follows:

| <u>Year Ending<br/>September 30</u>        | <u>Requirements</u>      |
|--|--------------------------|
| 2010                                       | \$ 85,752                |
| 2011                                       | 71,286                   |
| 2012                                       | 68,394                   |
| 2013                                       | 68,391                   |
| 2014                                       | 68,393                   |
| 2015 - 2019                                | <u>227,288</u>           |
| Total Requirements                         | \$ 589,504               |
| Less Amount Representing Interest          | <u>99,593</u>            |
| Present Value of<br>Minimum Lease Payments | <u><u>\$ 489,911</u></u> |

Compliance with Debt Covenants

There are various limitations and restrictions contained in the City's bond obligations. The City believes they are in compliance with all significant limitations and restrictions.

E. Commitments and Contingencies

Litigation – The City does not appear to be involved in any litigation at September 30, 2009.

Grants – Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects amounts, if any, to be immaterial.

Electric Utility

The City executed an operating and management agreement with Cap Rock Electric Cooperative, Inc. to provide for the operation of the City-owned electrical distribution system. Per the agreement, all aspects of the operation and management of the City's electrical distribution system will be the responsibility of Cap Rock. For the rights to distribute electrical utilities, Cap Rock pays the City an annual base payment split quarterly among the City's fiscal year. This payment is in lieu of any other payments to the City. The fifteen year agreement, (set to expire in 2014), provides for increases and decreases based on the net revenues of the system.



CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

F. Pension Plan

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 state statutes of TMRS.

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 the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by City Council, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

|   | Plan Year 2008            | Plan Year 2009            |
|---|---------------------------|---------------------------|
| Employee deposit rate   | 5.00%                     | 5.00%                     |
| Matching ratio (city to employee)                                       | 2 to 1                    | 2 to 1                    |
| Years required for vesting  | 5                         | 5                         |
| Service retirement eligibility<br>(expressed as age / years of service) | 60 / 5,0 / 25             | 60 / 5,0 / 25             |
| Update Service Credit   | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity Increase (to retirees)  | 70% of CPI Repeating      | 70% of CPI Repeating      |

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 cost 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 (overfunded) 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.

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

F. Pension Plan (Continued)

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. The annual pension cost and net pension obligation/(asset) are as follows:

| City of Farmersville<br>Schedule of Actuarial Liabilities and Funding Progress |              |              |              |
|--|--------------|--------------|--------------|
| Actuarial Valuation Date   | 12/31/2008   | 12/31/2007   | 12/31/2006   |
| Actuarial Value of Assets  | \$ 2,148,194 | \$ 2,017,154 | \$ 2,058,093 |
| Actuarial Accrued Liability  | \$ 3,164,598 | \$ 2,869,625 | \$ 2,671,934 |
| Unfunded (Overfunded) Actuarial<br>Accrued Liability (UAAL)                    | \$ 1,016,404 | \$ 852,471   | \$ 613,841   |
| Percentage Funded  | 67.9%        | 70.3%        | 77.0%        |
| Annual Covered Payroll   | \$ 1,050,868 | \$ 898,323   | \$ 923,599   |
| UAAL as a Percentage<br>of Covered Payroll                                     | 96.7%        | 94.9%        | 66.5%        |
| Net Pension Obligation (NPO)<br>at the Beginning of Period                     | \$ -         | \$ -         | \$ -         |
| Annual Pension Cost:   | \$ 107,405   | \$ 111,863   | \$ 102,212   |
| Percent of APC Contributed   | 100.0%       | 100.0%       | 100.0%       |
| NPO at the end of the month  | \$ -         | \$ -         | \$ -         |

General System-wide Actuarial Assumptions

|                               |                           |
|-------------------------------|---------------------------|
| Actuarial Cost Method         | Projected Unit Credit     |
| Amortization Method           | Level Percent of Payroll  |
| Remaining Amortization Period | 29 Years - Closed Period  |
| Asset Valuation Method        | Amortized Cost            |
| Investment Rate of Return     | 7.5%                      |
| Projected Salary Increases    | Varies by Age and Service |
| Includes Inflation at         | 3.0%                      |
| Cost-of-Living Adjustments    | 2.1%                      |

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to current 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.

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).

CITY OF FARMERSVILLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2009

G. 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; injuries to employees; and natural disasters. The City purchases commercial insurance to provide coverage of their associated risks. There has been no significant change in insurance coverage from the previous year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Interfund Balances and Activities

Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2009 consisted of the following:

| <u>Transfers From</u>    | <u>Transfers To</u>      | <u>Amount</u> | <u>Reason</u>                  |
|--------------------------|--------------------------|---------------|--------------------------------|
| Capital Projects Fund    | Water/Wastewater Utility | \$ 295,265    | Capital Asset Reclassification |
| Water/Wastewater Utility | Debt Service Fund        | 117,019       | Debt Retirement                |
| Water/Wastewater Utility | General Fund             | 191,858       | Operating Funds                |
| Electric Utility         | General Fund             | 556,346       | Operating Funds                |
| Refuse Utility           | General Fund             | 73,138        | Operating Funds                |

Interfund Receivables and Payables

Interfund receivables and payables at September 30, 2009 were as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> | <u>Purpose</u>     |
|------------------------|---------------------|---------------|--------------------|
| Southlake Park         | General Fund        | \$ 2,500      | Grant Expenditures |

I. Compliance, Stewardship and Accountability

Expenditures over Appropriations

The following individual funds incurred expenditures in excess of appropriations at functional expenditure levels:

|                        | <u>Budget</u> | <u>Actual</u> | <u>Excess</u> |
|------------------------|---------------|---------------|---------------|
| General Fund:          |               |               |               |
| Mayor & City Council   | \$ 9,869      | \$ 10,569     | \$ 700        |
| Municipal Court        | 90,533        | 90,848        | 315           |
| Library & Civic Center | 135,277       | 139,533       | 4,256         |
| Public Works           | 598,074       | 617,516       | 19,442        |
| Super Series           | -             | 21,036        | 21,036        |
| Debt Service           | 85,074        | 99,509        | 14,435        |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FARMERSVILLE, TEXAS  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 YEAR ENDED SEPTEMBER 30, 2009

|  | Budgeted Amounts    |                     |                     | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Amended             | Actual              |   |
| <b>REVENUES</b>  |                     |                     |                     |   |
| Taxes and Franchise Fees   | \$ 942,262          | \$ 952,761          | \$ 941,136          | \$ (11,625)   |
| Licenses and Permits   | 41,867              | 35,128              | 45,589              | 10,461  |
| Fines  | 79,204              | 129,264             | 145,428             | 16,164  |
| Service Fees   | 187,125             | 123,814             | 127,836             | 4,022   |
| Miscellaneous  | 30,000              | 113,193             | 155,206             | 42,013  |
| Interest Income  | 35,855              | 12,000              | 8,706               | (3,294)   |
| InterGovernmental Support  | 51,274              | 191,356             | 132,339             | (59,017)  |
| <b>Total Revenues</b>  | <b>\$ 1,367,587</b> | <b>\$ 1,557,516</b> | <b>\$ 1,556,240</b> | <b>\$ (1,276)</b>                                       |
| <b>EXPENDITURES</b>  |                     |                     |                     |   |
| Current:   |                     |                     |                     |   |
| Mayor and City Council   | \$ 14,140           | \$ 9,869            | \$ 10,569           | \$ (700)  |
| Administration   | 657,991             | 677,591             | 674,147             | 3,444   |
| Municipal Court  | 84,033              | 90,533              | 90,848              | (315)   |
| Library and Civic Center   | 146,295             | 135,277             | 139,533             | (4,256)   |
| Police   | 669,636             | 672,509             | 667,839             | 4,670   |
| Fire and Emergency Medical Service   | 101,149             | 152,433             | 108,426             | 44,007  |
| Public Works   | 539,180             | 598,074             | 617,516             | (19,442)  |
| Super Series   | -                   | -                   | 21,036              | (21,036)  |
| Debt Service   | 85,425              | 85,074              | 99,509              | (14,435)  |
| <b>Total Expenditures</b>  | <b>\$ 2,297,849</b> | <b>\$ 2,421,360</b> | <b>\$ 2,429,423</b> | <b>\$ (8,063)</b>                                       |
| <b>OTHER RESOURCES (USES)</b>  |                     |                     |                     |   |
| Transfers In   | \$ 804,257          | \$ 821,341          | \$ 821,342          | \$ 1  |
| Lease Purchase Proceeds  | -                   | -                   | 419,569             | 419,569   |
| Transfers Out  | -                   | -                   | (405,121)           | (405,121)   |
| <b>Total Other Resources (Uses)</b>  | <b>\$ 804,257</b>   | <b>\$ 821,341</b>   | <b>\$ 835,790</b>   | <b>\$ 14,449</b>  |
| Excess (Deficiency) of Revenues<br>and Other Resources Over<br>Expenditures and Other Uses | \$ (126,005)        | \$ (42,503)         | \$ (37,393)         | \$ 5,110  |
| Fund Balance - October 1 (Beginning)   | 739,586             | 739,586             | 739,586             | -   |
| Fund Balance - September 30 (Ending)   | \$ 613,581          | \$ 697,083          | \$ 702,193          | \$ 5,110  |

CITY OF FARMERSVILLE, TEXAS  
 BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY / ECONOMIC DEVELOPMENT FUND  
 YEAR ENDED SEPTEMBER 30, 2009

|  | Budgeted Amounts  |                   |                   | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------|-------------------|-------------------|-------------------|---|
|  | Original          | Amended           |                   |                   |   |
| <b>REVENUES</b>  |                   |                   |                   |                   |   |
| Taxes and Franchise Fees   | \$ 233,000        | \$ 233,000        | \$ 239,330        | \$ 6,330          |   |
| Miscellaneous  | -                 | -                 | 3,848             | 3,848             |   |
| Interest Income  | 22,300            | 22,300            | 5,963             | (16,337)          |   |
| <b>Total Revenues</b>  | <b>\$ 255,300</b> | <b>\$ 255,300</b> | <b>\$ 249,141</b> | <b>\$ (6,159)</b> |   |
| <b>EXPENDITURES</b>  |                   |                   |                   |                   |   |
| Current:   |                   |                   |                   |                   |   |
| Community Development  | \$ 234,956        | \$ 234,956        | \$ 116,075        | \$ 118,881        |   |
| Economic Development   | 252,450           | 252,450           | 122,704           | 129,746           |   |
| <b>Total Expenditures</b>  | <b>\$ 487,406</b> | <b>\$ 487,406</b> | <b>\$ 238,779</b> | <b>\$ 248,627</b> |   |
| <b>OTHER RESOURCES (USES)</b>  |                   |                   |                   |                   |   |
| Transfers In   | \$ -              | \$ -              | \$ -              | \$ -              |   |
| Lease Purchase Proceeds  | -                 | -                 | -                 | -                 |   |
| Transfers Out  | -                 | -                 | -                 | -                 |   |
| <b>Total Other Resources (Uses)</b>  | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ -</b>       |   |
| Excess (Deficiency) of Revenues<br>and Other Resources Over<br>Expenditures and Other Uses | \$ (232,106)      | \$ (232,106)      | \$ 10,362         | \$ 242,468        |   |
| Fund Balance - October 1 (Beginning)   | 702,268           | 702,268           | 702,268           | -                 |   |
| Fund Balance - September 30 (Ending)   | \$ 470,162        | \$ 470,162        | \$ 712,630        | \$ 242,468        |   |

CITY OF FARMERSVILLE, TEXAS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 YEAR ENDED SEPTEMBER 30, 2009

*(unaudited)*

| <i>Actuarial<br/>Valuation Date</i> | <i>Actuarial<br/>Value of<br/>Assets</i> | <i>Actuarial<br/>Accrued<br/>Liability (AAL)</i> | <i>Funded Ratio</i> | <i>Unfunded AAL<br/>(UAAL)</i> | <i>Covered<br/>Payroll</i> | <i>UAAL as a<br/>Percentage of<br/>Covered Payroll</i> |
|-------------------------------------|--|--|---------------------|--------------------------------|----------------------------|--|
|                                     | <i>(1)</i>                               | <i>(2)</i>                                       | <i>(3)</i>          | <i>(4)</i>                     | <i>(5)</i>                 | <i>(6)</i>   |
|                                     |  |  | <i>(1) / (2)</i>    | <i>(2) - (1)</i>               |                            | <i>(4) / (5)</i>                                       |
| 12/31/2006                          | \$ 2,058,093                             | \$ 2,671,934                                     | 77.0%               | \$ 613,841                     | \$ 923,599                 | 66.5%  |
| 12/31/2007                          | 2,017,154                                | 2,869,625  | 70.3%               | 852,471                        | 898,323                    | 94.9%  |
| 12/31/2008                          | 2,148,194                                | 3,164,598  | 67.9%               | 1,016,404                      | 1,050,868                  | 96.7%  |