



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2005**

**PREPARED BY**

**FINANCE DEPARTMENT  
CITY OF STEPHENVILLE, TEXAS**

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# **INTRODUCTORY SECTION**

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November 18, 2005

The Honorable Mayor, City Council and the Citizens of the City of Stephenville

The City of Stephenville (the “City”) Financial Management Policies requires that the City’s Finance Department prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, the Comprehensive Annual Financial Report for the City of Stephenville, Texas for the fiscal year ended September 30, 2005, is hereby issued.

This report consists of management’s representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making representations, the City has established a comprehensive internal control framework that is designed both to protect the City’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City’s comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2005, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended September 30, 2005, are fairly presented in conformity with GAAP. The independent auditors’ report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditor.

## **Profile of the City**

The City was incorporated in 1889 and chartered a home-rule city under Texas law in 1961. The City occupies approximately 10.26 square miles and serves a population of about 16,300. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate city limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing Council consisting of the Mayor and eight (8) Council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Administrator. The City Administrator is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing head of various departments. The Mayor and City Council members serve two (2) year terms. All elected officials are elected at-large.

The basic financial statements of the City include all governmental activities, organizations and functions for which the City is financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria, no other governmental organizations are included in this report.

**Services Provided.** The City provides a full range of services, including public safety (police, fire and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated water distribution system and both sanitary and storm sewer collection and transmission systems, recreational activities and cultural events, landfill operations, and airport facility maintenance as well as general administrative services.

**Economic Conditions and Outlook**

The information presented in the financial statements is perhaps best understood when it is considered from the broader of the specific environment within which the City operates.

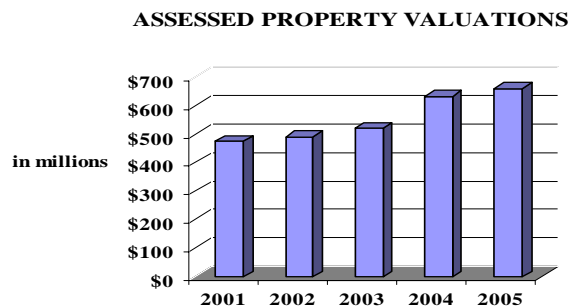
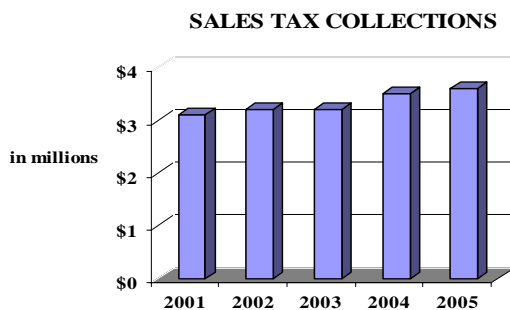
**Local Economy.** The City currently enjoys a favorable economic environment, bolstered by the strength of both Cross Timbers area and the State of Texas. Stephenville continues to act as a retail hub of the area. While many cities in the state are seeing the effect of a downturn in their economy, Stephenville has maintained its strong economic position. Strong property values, sales tax receipts and building activity are key indicators of the strength of the City’s economic position.

The following facts reflect Stephenville’s economic condition and outlook:

Property valuations increased by about \$61,500,000 (10.5%) in 2005 to \$645,500,000. Residential and commercial activity continues to be strong. With new residential building lots going on line this year and commercial buildings currently under construction, all signs point to property valuations continuing to increase.

The property tax rate of \$.4850 was the same that it had been for the past three (3) years.

Sales tax collections continue to experience growth this year showing a 3.3% increase over the previous year.



## **Accounting System and Budgetary Control**

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation of the City's financial planning and control. The City Charter provides that the City Council shall adopt the annual budget prepared by the City Administrator. The proposed budget must be submitted to the City Secretary no later than August 1<sup>st</sup> with the adoption taking place no later than September 23<sup>rd</sup>. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the departmental level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to the departmental management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

Budget-to-actual comparisons are provided in this report for the General Fund on pages 16 – 18.

**Debt Management.** The City has been funding its capital program from current revenues and surplus working capital since 1996.

**Cash Management.** The City utilizes its bank depository contract and its investment policy in the management of all cash. Under the bank depository contract, the City operating account earns the bank's public fund interest rate. During the fiscal year ended September 30, 2005, the average rate on the operating account balances was 2.39 percent. The City's investment policy embraces current state regulations on the investment of public funds and authorizes the City to invest in certificates of deposits from the bank depository, direct obligations of the United States Government, obligations of an agency of the United States Government and local government investment pools. The combination of these investment vehicles provided a weighted average return of 2.57 percent over the fiscal year. The City requires that all deposits be collateralized with securities held in joint accounts at First Financial Bank of Stephenville. Collateral is monitored monthly to ensure that the market value of the pledged securities equals or exceeds the related deposit or investment balance. Investments are always executed delivery-versus-payment method. That is, funds are not wired or paid until verification has been made that the correct security has been received. Securities are held on behalf of the City by the City's agent. All collateral shall be subject to verification and audit by the Finance Director and the City's independent auditors.



# **FINANCIAL SECTION**

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

**BASIC  
FINANCIAL STATEMENTS**

**COMBINING FUND  
STATEMENTS AND SCHEDULES**

## NONMAJOR GOVERNMENTAL FUNDS

*Special Revenue Funds* are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

*Hotel/Motel Occupancy Tax* – This fund is used to account for hotel/motel occupancy tax revenue to be used for enhancing and promoting tourism and convention activity for the benefit of the hotel industry.

*Child Safety* – This fund is used to account for court costs used to operate a City school crossing guard program, or programs designated to enhance child safety, health, or nutrition; including child abuse prevention and intervention and drug and alcohol abuse prevention.

*Public Safety* – This fund is used to account for court costs used to promote various public safety programs.

The *Debt Service Fund* is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

## NONMAJOR ENTERPRISE FUNDS

*Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent 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; or where the City has decided that periodic determination of net income is appropriate for accountability purposes.

*Sanitary Landfill* – This fund is used to account for solid waste collection and disposal services provided to the residents of the City.

*Airport* – This fund is used to account for municipal airport services and to support air transportation and charter services.

*Storm Water Drainage* – This fund is used to account for revenues collected and project costs for mitigating storm water drainage problems throughout the City.

## **FIDUCIARY FUNDS**

*Agency funds* are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds.

**Senior Citizens** – This fund is used to account for assets held for the benefit of a citizens' group.

# **STATISTICAL SECTION**

**INDEPENDENT AUDITORS' REPORT**

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

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 City of Stephenville, Texas, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Stephenville's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund 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 November 18, 2005, 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 should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stephenville, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Pattillo, Brown & Hill, L.L.P.*

November 18, 2005