

CITY OF NACOGDOCHES, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2009

City of Nacogdoches, Texas
Annual Financial Report
For The Year Ended September 30, 2009

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Introductory Section

CITY OF NACOGDOCHES, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2009

Elected Officials

<u>Name</u>	<u>Office</u>
Roger Van Horn	Mayor
Don Partin	Mayor Pro-Tem
Billy Huddleston, Jr.	Vice Mayor Pro-Tem
Shelley Brophy	Council Member
William Sanders, Jr.	Council Member

Appointed Officials

<u>Name</u>	<u>Position</u>
Jim Jeffers	City Manager
Lila Fuller	City Secretary
Jack Sparks	Director of Finance

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Financial Section

HALLS, JOHNSON, MCLEMORE, REDFIELD & RODRIGUES, LLP

CERTIFIED PUBLIC ACCOUNTANTS
A REGISTERED LIMITED LIABILITY PARTNERSHIP
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Kenneth Rodrigues, CPA, P.C.

Independent Auditor's Report

City Council
City of Nacogdoches, Texas
202 E. Pilar Street
Nacogdoches, Texas 75963

Members of the City 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 City of Nacogdoches, Texas (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City'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 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 February 4, 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents 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 performed for the purpose of forming opinions on the financial statements which collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Halls, Johnson, McLemore, Redfield & Rodriguez, LLP

HALLS, JOHNSON, McLEMORE, REDFIELD & RODRIGUES, LLP
February 4, 2010

City of Nacogdoches Management's Discussion and Analysis

As management of the City of Nacogdoches, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Nacogdoches (the City) for the fiscal year ended September 30, 2009.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$95,833,348 (net assets). Of this amount, \$20,224,274 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,189,011 for the year ended September 30, 2009, compared to an increase of \$5,048,946 for the year ended September 30, 2008.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,744,524.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,409,703, or 25.68 percent of total general fund expenditures.
- The City's total debt decreased by \$1,096,596 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, health and welfare, culture and recreation, and highways and streets. The business-type activities of the City include a water and sewer operation and a sanitation collection and disposal operation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital project fund and the debt service fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains three different types of proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operation, for its sanitation collection and disposal operation, and for its airport fuel operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its purchase of equipment for the general fund. Because this service benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operation and for the sanitation collection and disposal operation, both of which are considered to be major funds of the City. Conversely, the internal service fund is a single, aggregated presentation in the proprietary fund financial statements. Data for the internal service fund is provided in the form of combining statements elsewhere in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Combining statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Nacogdoches, assets exceeded liabilities by \$91,644,338 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (64 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 10,873	\$ 9,868	\$ 32,651	\$ 30,370	\$ 43,524	\$ 40,238
Capital assets	40,327	40,741	87,182	86,856	127,509	127,597
Total assets	<u>\$ 51,200</u>	<u>\$ 50,609</u>	<u>\$ 119,833</u>	<u>\$ 117,226</u>	<u>\$ 171,033</u>	<u>\$ 167,835</u>
Long-term liabilities	\$ 12,339	\$ 12,879	\$ 61,380	\$ 61,936	\$ 73,719	\$ 74,815
Other liabilities	975	947	506	428	1,481	1,375
Total liabilities	<u>\$ 13,314</u>	<u>\$ 13,826</u>	<u>\$ 61,886</u>	<u>\$ 62,364</u>	<u>\$ 75,200</u>	<u>\$ 76,190</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 29,447	\$ 29,321	\$ 30,538	\$ 29,208	\$ 59,985	\$ 58,529
Restricted	1,431	1,106	14,193	12,414	15,624	13,520
Unrestricted	7,008	6,355	13,216	13,240	20,224	19,595
Total net assets	<u>\$ 37,886</u>	<u>\$ 36,782</u>	<u>\$ 57,947</u>	<u>\$ 54,862</u>	<u>\$ 95,833</u>	<u>\$ 91,644</u>

A portion of the City's net assets (16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$20,224,274, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

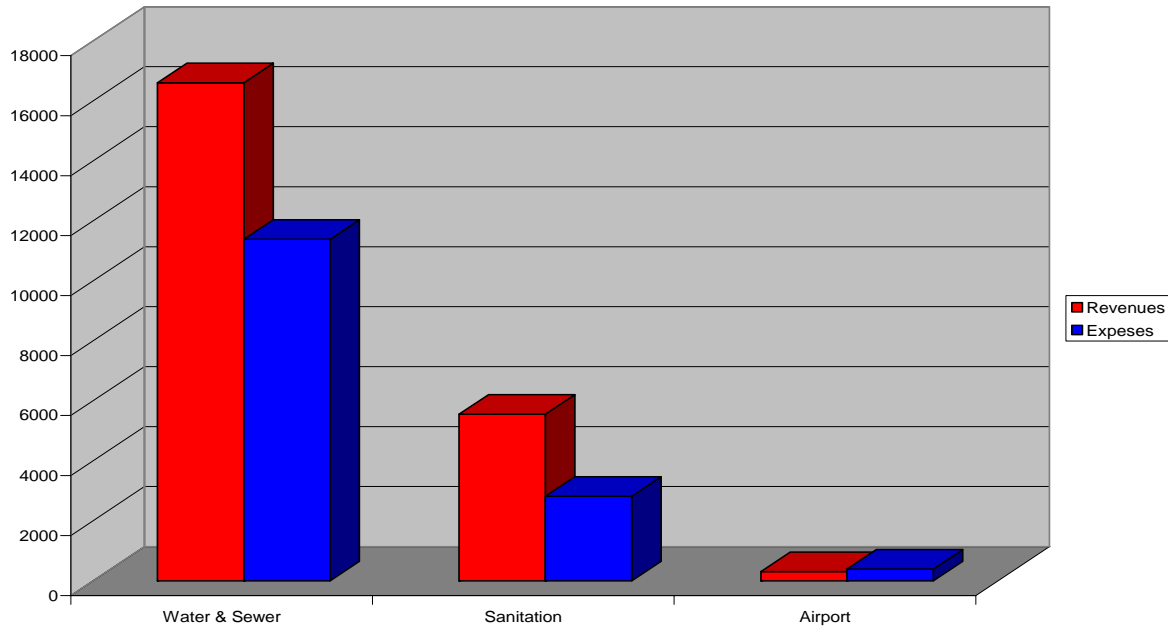
Governmental activities. Governmental activities increased the City's net assets by \$1,103,351. Key elements of this decrease are as follows:

**Changes in Net Assets
(in thousands)**

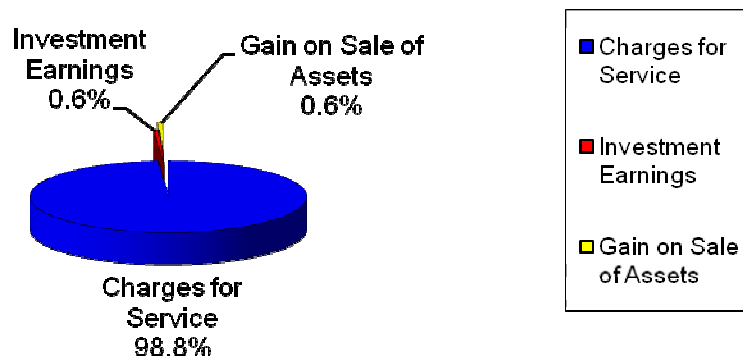
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 1,836	\$ 960	\$ 22,467	\$ 22,220	\$ 24,303	\$ 23,180
Operating grants & contributions	1,311	452			1,311	452
Capital grants & contributions	-	-			-	-
General revenues:						
Property taxes	7,038	6,768			7,038	6,768
Other taxes	8,778	8,536			8,778	8,536
Investment earnings	32	194	122	628	154	822
Other	534	1,641	144	(2)	678	1,639
Total revenues	<u>19,529</u>	<u>18,551</u>	<u>22,733</u>	<u>22,846</u>	<u>42,262</u>	<u>41,397</u>
Expenses:						
General government	4,146	4,703			4,146	4,703
Public safety	12,063	11,522	-	-	12,063	11,522
Highways & streets	2,706	2,490	-	-	2,706	2,490
Cultural & recreation	2,520	2,368	-	-	2,520	2,368
Economic development	1,004	995	-	-	1,004	995
Debt service	590	618	-	-	590	618
Capital Outlays	-	8	-	-	-	8
Water & sewer	-	-	11,388	10,323	11,388	10,323
Sanitation	-	-	2,822	3,007	2,822	3,007
Airport	-	-	392	509	392	509
Total expenses	<u>23,029</u>	<u>22,704</u>	<u>14,602</u>	<u>13,839</u>	<u>37,631</u>	<u>36,543</u>
Increase in net assets before transfers	(3,500)	(4,153)	8,131	9,007	4,631	4,854
Transfers	4,995	4,531	(4,995)	(4,531)	-	-
Increase in net assets	1,495	378	3,136	4,476	4,631	4,854
Prior period adjustment	(391)	191	(50)	3	(441)	194
Net assets - beginning	<u>36,782</u>	<u>36,213</u>	<u>54,861</u>	<u>50,382</u>	<u>91,643</u>	<u>86,595</u>
Net assets - ending	<u>\$ 37,886</u>	<u>\$ 36,782</u>	<u>\$ 57,947</u>	<u>\$ 54,861</u>	<u>\$ 95,833</u>	<u>\$ 91,643</u>

Business-type activities. Business-type activities increased the City's net assets by \$3,085,660. Charges for services increased from \$22.2 million in 2008 to \$22.5 million in 2009. A graphical comparison of the revenues and expenses for 2009 follows:

PROGRAM REVENUES AND EXPENSES - BUSINESS-TYPE ACTIVITIES

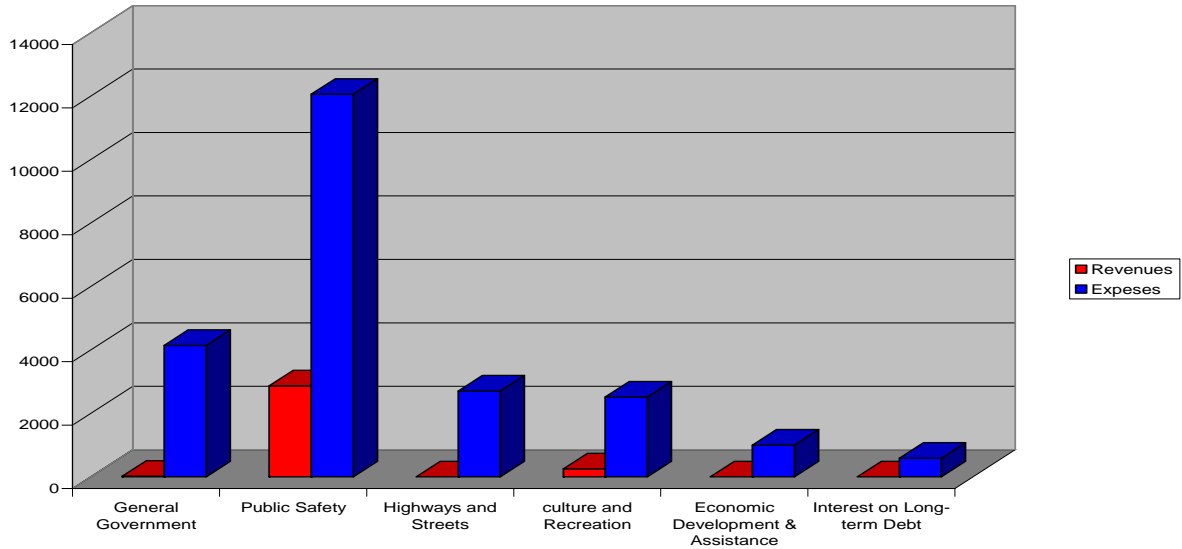


REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES

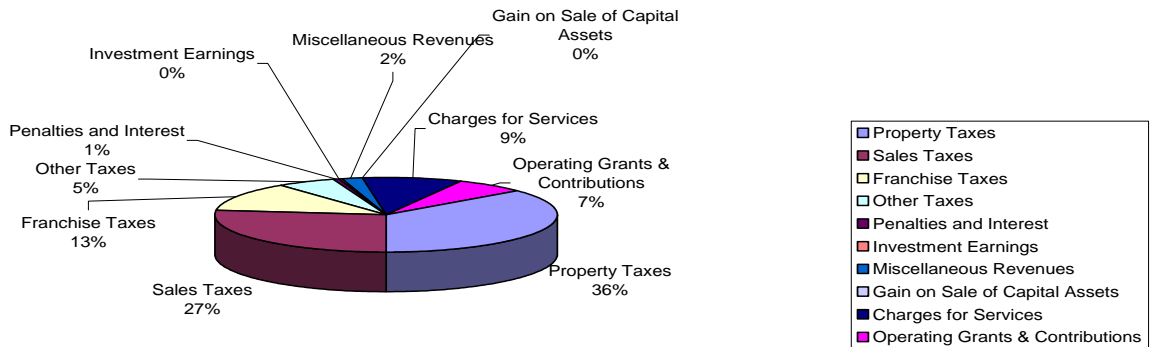


Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure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

PROGRAM REVENUES AND EXPENSES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$7,744,524. Approximately 82% of this amount (\$6,314,247) constitutes unreserved fund balance, which was available for spending at the government's discretion. The remainder of the fund balance was reserved to indicate that it was not available for new spending because it had already been committed for 1) Debt Service (\$180,516), 2) Non-current Loans (\$468,017), 3) Sunset Trust (\$265,688), or 4) Other Purposes (\$516,056).

The general fund is the chief operating fund of the City of Nacogdoches. At the end of the current fiscal year, unreserved fund balance of the general fund was \$5,409,703, while total fund balance reached \$5,570,817. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 26 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount.

A comparison of key governmental revenues follows:

Revenues Governmental Funds (in thousands)		
	2009	2008
Property tax	\$ 7,030	\$ 7,023
Sales tax	5,282	5,295
Gross receipts tax	2,441	2,432
Hotel & motel tax	1,054	810
Licenses & permits	308	368
Fines & forfeitures	1,263	1,075
Charges for services	265	269
Intergovernmental	1,311	362
Investment earnings	27	181
Other	513	455
Total	<u>\$ 19,494</u>	<u>\$ 18,270</u>

- Sales tax revenue remained fairly constant despite the downward turn in the national economy.
- The change in hotel / motel occupancy tax receipts to monthly instead of quarterly in January 2009 and the increase in hotel occupancy resulted in the increase in revenues in 2009.
- Fines and forfeitures revenue increased as a result of the release of several major seizures.
- Intergovernmental for the fiscal year 2009 included significant FEMA reimbursements from hurricanes Ike and Gustav.

The fund balance of the City's general fund increased by \$80,937 during the current fiscal year. The key factor in this increase was as follows:

- The receipt of hurricane Ike and Gustav reimbursements and prior period audit adjustments

The debt service fund had a total fund balance of \$180,516, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$16,212.

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

Unrestricted net assets of the water and sewer operations at the end of the year amounted to \$14,181,105, total unrestricted net assets for the sanitation operation amounted to \$781,809, and total unrestricted net assets for the airport operation amounted to \$5,936. The total changes in net assets for all three funds were \$2,034,562, \$996,027, and -\$5,851, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The difference in expenditures between the original budget and the final amended budget was \$552,297 as a result of budget amendments in the general fund during the year ended September 30, 2009.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009 and 2008, amounted to \$127,508,820 and \$127,597,478 (net of accumulated depreciation), respectively. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital asset events during the current fiscal year included the following:

- Continuing construction on water distribution improvements, which is estimated to cost \$17.6 million
- Continuing construction on new sewer line, which is estimated to cost \$1.7 million
- Continuing construction on pump station, water storage tank improvements and water line improvements, which is estimated to cost \$11.5 million

Capital Assets (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 3,611	\$ 3,600	\$ 1,510	\$ 1,486	\$ 5,121	\$ 5,086
Buildings and systems	14,315	14,244	115,645	111,128	129,960	125,372
Improvements other than buildings	2,732	2,732	4,127	4,577	6,859	7,309
Machinery and equipment	10,737	10,458	6,416	6,379	17,153	16,837
Infrastructure	45,934	45,540	-	-	45,934	45,540
Construction in progress	1,301	1,301	18,813	22,459	20,114	23,760
Accumulated depreciation	(38,303)	(37,134)	(59,329)	(59,173)	(97,632)	(96,307)
Total assets	<u>\$ 40,327</u>	<u>\$ 40,741</u>	<u>\$ 87,182</u>	<u>\$ 86,856</u>	<u>\$ 127,509</u>	<u>\$ 127,597</u>

Long-term debt. At the end of the current fiscal year, the City of Nacogdoches had total bonded debt outstanding of \$67,445,000.

Outstanding Debt (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 10,865	\$ 11,405	\$ 3,265	\$ 4,670	\$ 14,130	\$ 16,075
Revenue bonds	-	-	53,315	52,710	53,315	52,710
Bond premium (discount)	2	6	63	100	65	106
Notes payable	-	29	-	-	-	29
Capital lease payable	13	34	-	-	13	34
Meter deposits	-	-	142	147	142	147
Compensated absences payable	1,459	1,404	254	265	1,713	1,669
Landfill closure & post-closure	-	-	4,340	4,044	4,340	4,044
Total assets	<u>\$ 12,339</u>	<u>\$ 12,878</u>	<u>\$ 61,379</u>	<u>\$ 61,936</u>	<u>\$ 73,718</u>	<u>\$ 74,814</u>

The City's total debt decreased by \$1,096,596 during the current fiscal year.

The City of Nacogdoches maintained an "AA-" rating from Standard & Poor's and Fitch and an "A2" rating from Moody's.

Economic Factors and Next Year's Budgets and Rates

The City of Nacogdoches considered many factors when setting the fiscal year 2009-2010 budget, tax rates, and fees that would be charged for business-type activities. One of these factors was the economy. With a national economic slowdown, the City took a conservative approach, projecting sales tax receipts remain the same as actual FY 2008-2009 for FY 2009-2010. The City was able to maintain the same property tax rate in the 2009-2010 budget because of additional residential and commercial development growth over the last few years. New construction over the last twelve months contributed to a \$25 million increase in total appraised values. The City's 2009-2010 budget appropriated reserve funds to replace or repair aging infrastructure, and at the same time, still maintain a 25% reserve requirement.

The 2009-2010 General Fund operating expenditures budget decreased by 2.6% or \$543,739 from FY 2008-2009 adopted budget. Public Safety expenditures account for most of the increase in the 2009-2010 General Fund operating budget since a high priority is placed on this municipal service.

The Water and Sewer Fund 2009-2010 budget needed no increase in fees to fund operational costs

The 2009-2010 budget for the Sanitation fund needed no increase in fees to fund operational cost.

The total operating budget for 2009-2010 is on target for both revenues and expenditures at the issuance of these statements.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, 202 E. Pilar, City of Nacogdoches, Texas, 75961.

Basic Financial Statements

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 7,329,271	\$ 13,074,711	\$ 20,403,982
Investments	1,000,000	1,500,000	2,500,000
Receivables (net of allowances for uncollectibles):			
Property taxes	296,164	--	296,164
Customer accounts	17,563	2,219,198	2,236,761
Intergovernmental	950,123	20,020	970,143
Other	93,607	--	93,607
Internal balances	76,000	201,020	277,020
Inventories	--	51,275	51,275
Advances for economic development	468,017	--	468,017
Deferred charges	75,800	1,236,536	1,312,336
Restricted Assets:			
Cash and cash equivalents	566,493	11,848,647	12,415,140
Investments	--	2,500,000	2,500,000
Capital Assets (net of accumulated depreciation):			
Land	3,611,380	1,509,907	5,121,287
Utility system and buildings	10,213,661	62,297,600	72,511,261
Improvements other than buildings	1,345,614	1,486,626	2,832,240
Machinery and equipment	2,662,317	3,074,595	5,736,912
Infrastructure	21,193,349	--	21,193,349
Construction in progress	1,300,901	18,812,870	20,113,771
Total Assets	<u>51,200,260</u>	<u>119,833,005</u>	<u>171,033,265</u>
LIABILITIES:			
Accounts payable	98,145	132,709	230,854
Accrued expenses	437,830	120,493	558,323
Accrued interest payable	45,563	156,288	201,851
Deferred revenues	14,320	25,610	39,930
Due to other funds	201,020	71,000	272,020
Other liabilities	178,188	--	178,188
Noncurrent Liabilities-			
Amounts due within one year	676,252	3,345,150	4,021,402
Amounts due in more than one year	11,662,994	58,034,355	69,697,349
Total Liabilities	<u>13,314,312</u>	<u>61,885,605</u>	<u>75,199,917</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	29,447,326	30,538,121	59,985,447
Restricted For:			
Debt service	180,516	4,975,297	5,155,813
Construction	253,753	7,334,109	7,587,862
Trust funds:			
Nonexpendable	265,689	--	265,689
Economic development	569,206	--	569,206
Landfill closure	--	1,883,943	1,883,943
Other purposes	161,114	--	161,114
Unrestricted	7,008,344	13,215,930	20,224,274
Total Net Assets	<u>\$ 37,885,948</u>	<u>\$ 57,947,400</u>	<u>\$ 95,833,348</u>

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General Government	\$ 4,145,739	\$ --	\$ 22,000
Public Safety	12,063,000	1,581,121	1,289,182
Highways and Streets	2,706,133	--	--
Culture and Recreation	2,520,571	254,506	--
Economic Development and Assistance	1,003,611	--	--
Interest on Long-term Debt	589,785	--	--
Total Governmental Activities	<u>23,028,839</u>	<u>1,835,627</u>	<u>1,311,182</u>
Business-type Activities:			
Water and Sewer	11,387,995	16,605,772	--
Sanitation	2,821,980	5,555,373	--
Airport	391,939	306,287	--
Total Business-type Activities	<u>14,601,914</u>	<u>22,467,432</u>	<u>--</u>
Total Primary Government	<u>\$ 37,630,753</u>	<u>\$ 24,303,059</u>	<u>\$ 1,311,182</u>

General Revenues:
 Property Taxes
 Sales Taxes
 Franchise Taxes
 Other Taxes
 Penalties and Interest
 Investment Earnings
 Miscellaneous Revenue
 Gain on Sale of Capital Assets
 Transfers
 Total General Revenues

Change in Net Assets

Net Assets - Beginning
 Prior Period Adjustment
 Net Assets - Restated

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (4,123,739)		\$ (4,123,739)
(9,192,697)		(9,192,697)
(2,706,133)		(2,706,133)
(2,266,065)		(2,266,065)
(1,003,611)		(1,003,611)
(589,785)		(589,785)
<u>(19,882,030)</u>		<u>(19,882,030)</u>
--	\$ 5,217,777	5,217,777
--	2,733,393	2,733,393
--	(85,652)	(85,652)
--	7,865,518	7,865,518
<u>(19,882,030)</u>	<u>7,865,518</u>	<u>(12,016,512)</u>
7,038,229	--	7,038,229
5,282,325	--	5,282,325
2,441,364	--	2,441,364
1,054,277	--	1,054,277
143,016	--	143,016
31,636	121,565	153,201
369,026	--	369,026
22,058	143,477	165,535
4,994,900	(4,994,900)	--
<u>21,376,831</u>	<u>(4,729,858)</u>	<u>16,646,973</u>
<u>1,494,801</u>	<u>3,135,660</u>	<u>4,630,461</u>
36,782,597	54,861,740	91,644,337
(391,450)	(50,000)	(441,450)
<u>36,391,147</u>	<u>54,811,740</u>	<u>91,202,887</u>
<u>\$ 37,885,948</u>	<u>\$ 57,947,400</u>	<u>\$ 95,833,348</u>

CITY OF NACOGDOCHES, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 5,087,202	\$ --	\$ 1,050,792	\$ 6,137,994
Investments	--	--	200,000	200,000
Property taxes receivable	296,164	--	--	296,164
Customer accounts receivable	15,907	--	1,656	17,563
Other receivables	93,607	--	--	93,607
Due from other governments	883,949	--	66,174	950,123
Due from other funds	76,000	--	--	76,000
Advances for economic development	--	--	468,017	468,017
Cash - Restricted	161,114	180,516	224,863	566,493
Total Assets	<u>\$ 6,613,943</u>	<u>\$ 180,516</u>	<u>\$ 2,011,502</u>	<u>\$ 8,805,961</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 95,680	\$ --	\$ 2,466	\$ 98,146
Accrued expenditures	379,487	--	1,525	381,012
Due to other governments	172,770	--	--	172,770
Deferred revenue	389,771	--	14,320	404,091
Other liabilities	5,418	--	--	5,418
Total Liabilities	<u>1,043,126</u>	<u>--</u>	<u>18,311</u>	<u>1,061,437</u>
Fund Balances:				
Reserved for:				
Special purpose	161,114	--	--	161,114
Capital projects	--	--	253,753	253,753
Debt service	--	180,516	--	180,516
Economic development	--	--	101,189	101,189
Non-current loans	--	--	468,017	468,017
Permanent trust	--	--	265,688	265,688
Unreserved, undesignated reported in:				
General fund	5,409,703	--	--	5,409,703
Special revenue funds	--	--	904,544	904,544
Total Fund Balances	<u>5,570,817</u>	<u>180,516</u>	<u>1,993,191</u>	<u>7,744,524</u>
Total Liabilities and Fund Balances	<u>\$ 6,613,943</u>	<u>\$ 180,516</u>	<u>\$ 2,011,502</u>	<u>\$ 8,805,961</u>

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

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

Total fund balances - governmental funds balance sheet \$ 7,744,524

Amounts reported for governmental activities in the statement of net assets
("SNA") are different because:

Capital assets used in governmental activities are not reported in the funds.	39,725,260
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	296,164
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	2,335,404
Payables for bond principal which are not due in the current period are not reported in the funds.	(10,865,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(12,924)
Payables for bond interest which are not due in the current period are not reported in the funds.	(45,563)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(1,459,350)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	93,607
Unamortized bond issue costs are not reported in the funds.	75,801
Unamortized bond premiums (discounts) are not reported in the funds.	(1,972)
Rounding difference	(3)

Net assets of governmental activities - statement of net assets \$ 37,885,948

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes:				
Property taxes	\$ 5,904,016	\$ 1,126,249	\$ --	\$ 7,030,265
General sales taxes	5,282,325	--	--	5,282,325
Franchise taxes	2,441,364	--	--	2,441,364
Hotel/motel occupancy taxes	--	--	1,054,277	1,054,277
Licenses and permits	308,055	--	--	308,055
Fines and forfeitures	1,156,371	--	106,701	1,263,072
Charges for services	264,500	--	--	264,500
Penalties on tax collections	136,592	--	6,424	143,016
Investment earnings	18,824	396	8,234	27,454
Intergovernmental	952,205	--	358,977	1,311,182
Miscellaneous	89,911	--	279,115	369,026
Total revenues	<u>16,554,163</u>	<u>1,126,645</u>	<u>1,813,728</u>	<u>19,494,536</u>
Expenditures				
Current:				
General government	4,055,609	--	46,532	4,102,141
Public safety	12,250,638	--	254,397	12,505,035
Highways and streets	1,795,160	--	--	1,795,160
Culture and recreation	2,316,503	--	108,848	2,425,351
Community development	--	--	1,030,252	1,030,252
Debt Service	--	1,110,433	--	1,110,433
Capital Outlay	646,985	--	--	646,985
Total Expenditures	<u>21,064,895</u>	<u>1,110,433</u>	<u>1,440,029</u>	<u>23,615,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,510,732)</u>	<u>16,212</u>	<u>373,699</u>	<u>(4,120,821)</u>
Other financing sources (uses)				
Operating transfers in	5,102,860	--	175,155	5,278,015
Operating transfers out	(259,661)	--	(26,930)	(286,591)
Sale of capital assets	27,976	--	--	27,976
Total other financing sources (uses)	<u>4,871,175</u>	<u>--</u>	<u>148,225</u>	<u>5,019,400</u>
Net Change in Fund Balances	360,443	16,212	521,924	898,579
Fund Balances - Beginning	5,489,880	164,304	1,486,056	7,140,240
Prior Period Adjustment	(279,506)	--	(14,789)	(294,295)
Fund Balances - Beginning as Restated	<u>5,210,374</u>	<u>164,304</u>	<u>1,471,267</u>	<u>6,845,945</u>
Fund Balances - Ending	<u>\$ 5,570,817</u>	<u>\$ 180,516</u>	<u>\$ 1,993,191</u>	<u>\$ 7,744,524</u>

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Net change in fund balances - total governmental funds	\$ 898,579
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,588,624
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,970,154)
The gain or loss on the sale of capital assets is not reported in the funds.	(12,573)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,964
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	540,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	21,520
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	28,534
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(25,736)
(Increase) decrease in accrued interest from beginning of period to end of period.	1,974
The net revenue (expense) of certain activities of internal service funds is reported with governmental activities	200,872
The net revenue (expense) of internal service funds is reported with governmental activities.	265,666
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(54,881)
Bond premiums are reported in the funds but not in the SOA.	4,410
Rounding difference	<u>2</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,494,801</u>

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Taxes:				
Property taxes	\$ 5,830,000	\$ 5,830,000	\$ 5,904,016	\$ 74,016
General sales taxes	5,375,000	5,375,000	5,282,325	(92,675)
Franchise taxes	2,518,000	2,518,000	2,441,364	(76,636)
Licenses and permits	429,500	429,500	308,055	(121,445)
Fines and forfeitures	1,230,700	1,230,700	1,156,371	(74,329)
Charges for services	254,900	305,900	264,500	(41,400)
Penalties on tax collections	135,000	135,000	136,592	1,592
Investment earnings	200,000	200,000	18,824	(181,176)
Intergovernmental	115,650	548,008	952,205	404,197
Miscellaneous	96,000	96,000	89,911	(6,089)
Total revenues	<u>16,184,750</u>	<u>16,668,108</u>	<u>16,554,163</u>	<u>(113,945)</u>
Expenditures:				
General government:				
City Commission	26,650	26,650	14,606	12,044
City Manager	455,905	455,905	395,894	60,011
Municipal Court	281,760	285,232	285,068	164
City Secretary/Grant Administrator	196,175	196,175	186,142	10,033
Finance	259,200	259,200	244,394	14,806
Information Technology	311,635	311,635	285,206	26,429
Human Resources	240,400	240,400	200,766	39,634
Legal	149,405	149,405	146,563	2,842
Planning and Zoning	233,945	233,945	153,277	80,668
Building Maintenance	395,200	395,200	348,414	46,786
Purchasing and Warehouse	133,420	133,420	126,408	7,012
Main Street	66,425	66,425	73,316	(6,891)
Vehicle Maintenance	342,725	342,725	317,210	25,515
Non-Departmental	1,375,992	1,382,242	1,243,157	139,085
Restricted	2,350	2,350	35,188	(32,838)
Total General Government	<u>4,471,187</u>	<u>4,480,909</u>	<u>4,055,609</u>	<u>425,300</u>
Public Safety:				
Police Department	6,164,905	6,677,309	6,439,672	237,637
Emergency Services	28,245	28,245	22,679	5,566
Fire Protection	4,985,508	4,998,013	4,862,960	135,053
Inspection	630,150	630,150	603,082	27,068
Animal Control	347,595	347,595	322,245	25,350
Total Public Safety	<u>12,156,403</u>	<u>12,681,312</u>	<u>12,250,638</u>	<u>430,674</u>
Highways and Streets:				
Public Works	221,950	221,950	216,296	5,654
Street Maintenance	1,210,440	1,210,440	1,184,539	25,901
Engineering	524,450	524,450	394,325	130,125
Total Highways and Streets	<u>1,956,840</u>	<u>1,956,840</u>	<u>1,795,160</u>	<u>161,680</u>

CITY OF NACOGDOCHES, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Culture and Recreation:				
Historic Sites	176,675	176,675	176,434	241
Library	503,020	503,020	488,415	14,605
Recreation	665,825	665,825	573,147	92,678
Parks	750,950	750,950	690,940	60,010
Cemetery	425,600	431,600	387,567	44,033
Total Culture and Recreation	<u>2,522,070</u>	<u>2,528,070</u>	<u>2,316,503</u>	<u>211,567</u>
Capital Outlay	<u>759,000</u>	<u>770,666</u>	<u>646,985</u>	<u>123,681</u>
Total Expenditures	<u>21,865,500</u>	<u>22,417,797</u>	<u>21,064,895</u>	<u>1,352,902</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,680,750)</u>	<u>(5,749,689)</u>	<u>(4,510,732)</u>	<u>1,238,957</u>
Other Financing Sources (Uses):				
Operating transfers in	5,105,430	5,105,430	5,102,860	(2,570)
Operating transfers out	(186,030)	(232,905)	(259,661)	26,756
Total other financing sources (uses)	<u>4,919,400</u>	<u>4,872,525</u>	<u>4,871,175</u>	<u>1,350</u>
Net Change in Fund Balances	<u>(761,350)</u>	<u>(877,164)</u>	<u>360,443</u>	<u>1,237,607</u>
Fund Balances - Beginning	5,210,374	5,210,374	5,489,880	279,506
Prior Period Adjustment	--	--	(279,506)	(279,506)
Fund Balances - Beginning as Restated	<u>5,210,374</u>	<u>5,210,374</u>	<u>5,210,374</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 4,449,024</u>	<u>\$ 4,333,210</u>	<u>\$ 5,570,817</u>	<u>\$ 1,237,607</u>

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	Enterprise Fund	Enterprise Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
Current Assets:					
Cash and cash equivalents	\$ 10,337,466	\$ 2,658,221	\$ 79,024	\$ 13,074,711	\$ 1,191,277
Investments	1,500,000	-	-	1,500,000	800,000
Receivables (net of allowance for uncollectibles):					
Accounts	1,832,167	385,349	1,682	2,219,198	-
Other	-	-	20,020	20,020	-
Due from other funds	-	-	-	-	-
Inventories	-	-	51,275	51,275	-
Total Current Assets	13,669,633	3,043,570	152,001	16,865,204	1,991,277
Construction Funds:					
Cash and cash equivalents	7,330,943	-	-	7,330,943	-
Investments	2,500,000	-	-	2,500,000	-
Revenue Bond Interest & Sinking Funds:					
Cash and cash equivalents	1,919,573	-	-	1,919,573	-
Revenue Bond Reserve Funds:					
Cash and cash equivalents	714,188	-	-	714,188	-
Landfill:					
Cash and cash equivalents	-	1,883,943	-	1,883,943	-
Total Restricted Assets	12,464,704	1,883,943	-	14,348,647	-
Unamortized bond charges	1,235,937	599	-	1,236,536	-
Total Noncurrent Assets	13,700,641	1,884,542	-	15,585,183	-
Capital Assets (net of accumulated depreciation):					
Land	692,353	817,554	-	1,509,907	-
Water system, building, and equipment	71,822,309	-	-	71,822,309	-
Sewer system, building, and equipment	43,822,213	-	-	43,822,213	-
Buildings	-	2,787,583	-	2,787,583	-
Office furniture and equipment	3,459,270	3,956,858	-	7,416,128	2,447,948
Dumpsters	-	339,732	-	339,732	-
Construction in progress	18,799,801	-	13,069	18,812,870	-
Less accumulated depreciation	(55,829,513)	(3,499,631)	-	(59,329,144)	(1,845,984)
Total Capital Assets	82,766,433	4,402,096	13,069	87,181,598	601,964
Total Assets	\$ 110,136,707	\$ 9,330,208	\$ 165,070	\$ 119,631,985	\$ 2,593,241

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	Enterprise Fund	Enterprise Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 44,352	\$ 29,678	\$ 58,679	\$ 132,709	\$ -
Accrued expenses	76,383	62,272	1,988	140,643	56,818
Due to other funds	-	-	71,000	71,000	-
Deferred revenue	396	-	25,214	25,610	-
Total Current Liabilities	<u>121,131</u>	<u>91,950</u>	<u>156,881</u>	<u>369,962</u>	<u>56,818</u>
Current Liabilities Payable from Restricted Assets:					
Revenue bonds payable	2,105,000	-	-	2,105,000	-
General obligation bonds payable	970,000	250,000	-	1,220,000	-
Accrued interest payable	155,298	990	-	156,288	-
Total Current Liabilities Payable From Restricted Assets	<u>3,230,298</u>	<u>250,990</u>	<u>-</u>	<u>3,481,288</u>	<u>-</u>
Noncurrent Liabilities:					
Revenue bonds payable	51,273,477	-	-	51,273,477	-
General obligation bonds payable	2,045,000	-	-	2,045,000	-
Accrued compensated absences	152,462	79,256	2,253	233,971	-
Customer meter deposits payable	142,269	-	-	142,269	-
Landfill closure costs	-	4,339,638	-	4,339,638	-
Total Noncurrent Liabilities	<u>53,613,208</u>	<u>4,418,894</u>	<u>2,253</u>	<u>58,034,355</u>	<u>-</u>
Total Liabilities	<u>56,964,637</u>	<u>4,761,834</u>	<u>159,134</u>	<u>61,885,605</u>	<u>56,818</u>
NET ASSETS					
Investment in capital assets, net of related debt	26,681,559	1,902,622	-	28,584,181	601,964
Restricted for debt service	4,975,297	-	-	4,975,297	-
Restricted for construction	7,334,109	-	-	7,334,109	-
Restricted for landfill closure	-	1,883,943	-	1,883,943	-
Unrestricted net assets	14,181,105	781,809	5,936	14,968,850	1,934,459
Total Net Assets	<u>\$ 53,172,070</u>	<u>\$ 4,568,374</u>	<u>\$ 5,936</u>	<u>57,746,380</u>	<u>\$ 2,536,423</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				201,020	
Net assets of business-type activities				<u>\$ 57,947,400</u>	

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund	Enterprise Fund	Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Funds
	Water and Sewer Fund	Sanitation Fund	Airport Fund		
OPERATING REVENUES					
Charges for sales and services:					
Water	\$ 7,532,217	\$ -	\$ -	\$ 7,532,217	\$ -
Sewer treatment	8,295,072	-	-	8,295,072	-
Sanitation charges	-	4,766,412	-	4,766,412	-
Landfill gate receipts	-	671,670	-	671,670	-
Charges for sales and services	54,352	-	299,331	353,683	-
Equipment rental	-	-	-	-	429,785
Employer premiums	-	-	-	-	1,326,119
Employee premiums	-	-	-	-	331,440
Total charges for sales and services	<u>15,881,641</u>	<u>5,438,082</u>	<u>299,331</u>	<u>21,619,054</u>	<u>2,087,344</u>
Other:					
Tapping fees - water	36,341	-	-	36,341	-
Tapping fees - sewer	9,541	-	-	9,541	-
Late fees	298,325	-	-	298,325	-
Inspections	46,297	-	-	46,297	-
Miscellaneous revenue	333,627	117,290	6,956	457,873	71,070
Total Operating Revenues	<u>16,605,772</u>	<u>5,555,372</u>	<u>306,287</u>	<u>22,467,431</u>	<u>2,158,414</u>
OPERATING EXPENSES					
Customer service	729,681	-	-	729,681	-
Water production	2,024,957	-	-	2,024,957	-
Water distribution & collection	1,176,753	-	-	1,176,753	-
Wastewater treatment	2,169,530	-	-	2,169,530	-
Sanitation collection	-	1,088,397	-	1,088,397	-
Sanitation disposal	-	975,925	-	975,925	-
Cost of fuel	-	-	393,681	393,681	-
Non-departmental	875,101	317,218	-	1,192,319	1,396,640
Depreciation and amortization	2,423,588	434,784	-	2,858,372	248,625
Total Operating Expenses	<u>9,399,610</u>	<u>2,816,324</u>	<u>393,681</u>	<u>12,609,615</u>	<u>1,645,265</u>
Operating Income	<u>7,206,162</u>	<u>2,739,048</u>	<u>(87,394)</u>	<u>9,857,816</u>	<u>513,149</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest revenue	114,865	6,687	13	121,565	4,181
Gain on sale of assets	13,685	129,792	-	143,477	6,655
Interest expense	(2,029,720)	(23,500)	-	(2,053,220)	-
Total Non-operating Revenues (Expenses)	<u>(1,901,170)</u>	<u>112,979</u>	<u>13</u>	<u>(1,788,178)</u>	<u>10,836</u>
Income before Transfers	5,304,992	2,852,027	(87,381)	8,069,638	523,985
Interfund operating transfers in	-	-	81,530	81,530	27,976
Interfund operating transfers out	<u>(3,220,430)</u>	<u>(1,856,000)</u>	<u>-</u>	<u>(5,076,430)</u>	<u>(24,500)</u>
Change in Net Assets	2,084,562	996,027	(5,851)	3,074,738	527,461
Total Net Assets - Beginning	51,137,508	3,572,347	11,787		2,008,962
Prior Period Adjustment	(50,000)	-	-		-
Total Net Assets - Ending	<u>\$ 53,172,070</u>	<u>\$ 4,568,374</u>	<u>\$ 5,936</u>		<u>\$ 2,536,423</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>60,922</u>	
Change in net assets of business-type activities.				<u>\$ 3,135,660</u>	

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund Water and Sewer Fund	Enterprise Fund Sanitation Fund	Nonmajor Enterprise Fund Airport Fund	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:					
Cash received from customers	\$ 16,609,766	\$ 5,506,744	\$ 308,711	\$ 22,425,221	\$ 332,068
Cash receipts (payments) for quasi-external operating transactions with other funds	-	-	-	-	1,878,234
Cash payments to employees for services	(6,792)	(2,718)	(858)	(10,368)	-
Cash payments to suppliers for goods & services	(6,958,396)	(2,357,383)	(297,303)	(9,613,082)	(1,502,328)
Net Cash Provided (Used) by Operating Activities	9,644,578	3,146,643	10,550	12,801,771	707,974
Cash Flows from Non-capital Financing Activities:					
Transfers from (to) other funds	(3,220,430)	(1,856,000)	70,671	(5,005,759)	3,476
Net Cash Provided (Used) by Non-capital Financing Activities	(3,220,430)	(1,856,000)	70,671	(5,005,759)	3,476
Cash Flows from Capital and Related Financing Activities:					
Proceeds from issuance of long-term debt	2,330,000	-	-	2,330,000	-
Principal and interest paid	(4,827,071)	(263,275)	-	(5,090,346)	-
Acquisition or construction of capital assets	(2,584,367)	(832,254)	(2,196)	(3,418,817)	(247,268)
Proceeds from sale of capital assets	248,537	141,110	-	389,647	25,000
Change in long-term landfill closure costs	-	295,392	-	295,392	-
Net Cash Provided (Used) for Capital & Related Financing Activities	(4,832,901)	(659,027)	(2,196)	(5,494,124)	(222,268)
Cash Flows from Investing Activities:					
Purchase of investment securities	(4,000,000)	-	-	(4,000,000)	(800,000)
Interest and dividends on investments	114,865	6,687	-	121,552	4,181
Net Cash Provided (Used) for Investing Activities	(3,885,135)	6,687	-	(3,878,448)	(795,819)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,293,888)	638,303	79,025	(1,576,560)	(306,637)
Cash and Cash Equivalents at Beginning of Year	22,596,058	3,903,861	-	26,499,919	1,497,914
Cash and Cash Equivalents at End of Year	\$ 20,302,170	\$ 4,542,164	\$ 79,025	\$ 24,923,359	\$ 1,191,277
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 7,206,162	\$ 2,739,048	\$ (87,394)	\$ 9,857,816	\$ 513,149
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation	2,423,588	434,784	-	2,858,372	248,625
Change in Assets and Liabilities:					
Decrease (increase) in receivables	8,458	(48,629)	2,437	(37,734)	-
Decrease (increase) in inventories	-	-	19,061	19,061	-
Increase (decrease) in accounts payable	16,252	29,678	58,679	104,609	(26,878)
Increase (decrease) in accrued wages payable	-	-	(859)	(859)	-
Increase (decrease) in interfund payables	-	-	19,847	19,847	-
Increase (decrease) in accrued expenses	(5,418)	(8,238)	(1,221)	(14,877)	(26,922)
Increase (decrease) in unearned revenue	-	-	-	-	-
Increase (decrease) in meter deposits payable	(4,464)	-	-	(4,464)	-
Total Adjustments	2,438,416	407,595	97,944	2,943,955	194,825
Net Cash Provided (Used) by Operating Activities	\$ 9,644,578	\$ 3,146,643	\$ 10,550	\$ 12,801,771	\$ 707,974

The accompanying notes are an integral part of this statement.

CITY OF NACOGDOCHES, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2009

	<u>Agency Fund</u>
	<u>FSA Cafeteria Fund</u>
ASSETS	
Cash and cash equivalents	\$ 8,108
Total Assets	<u>\$ 8,108</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accrued expenses	\$ 3,108
Due to other funds	5,000
Total Liabilities	<u>8,108</u>
Total Fund Balances	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 8,108</u>

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

The combined financial statements of City of Nacogdoches, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Debt Service Fund: Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The City reports the following major enterprise funds:

Water and Sewer Fund: The Water and Sewer Fund is used to account for the water and sewer system operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Sanitation Fund: The Sanitation Fund is used to account for the garbage collection and landfill operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

In addition, the City reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support City programs, these funds are not included in the government-wide statements.

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

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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 year in which imposed. 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories of fuel in the Airport Fund are valued at cost using the weighted average cost method. For the governmental funds, the City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Water & Sewer Systems	40-50
Buildings	50
Building Improvements	15
Vehicles	5-15
Equipment	3-15

e. Receivable and Payable Balances

There are no significant receivables which are not scheduled for collection within one year of year end.

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

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

5. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

The City had no outstanding end-of-year encumbrances.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Reconciliation of Government-Wide and Fund Financial Statements

The proprietary fund statement of net assets includes a reconciliation between net assets - total enterprise funds and net assets of business-type activities as reported in the government-wide statement of net assets. The description of that reconciliation is "Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds." The details of this difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities - prior years	\$	140,098
Internal receivable representing charges in excess of cost to business-type activities - current year		<u>60,922</u>
Net adjustment to increase net assets - total enterprise funds to arrive at net assets - business-type activities	\$	<u><u>201,020</u></u>

D. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$22,188,903 and the bank balance was \$25,444,382. The City's cash deposits at September 30, 2009 and during the year ended September 30, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investment at September 30, 2009 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 8,650,572
Certificates of deposit	< 1 year	5,000,000
Total Investments		<u>\$ 13,650,572</u>

Analysis of Specific Deposit and Investment Risks:

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 rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

At September 30, 2009, the City's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

TexPool - rated AAAM by Standard & Poors
 Certificates of deposit are fully collateralized by the City depository bank

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 credit 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 not exposed to custodial credit risk.

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

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.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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

E. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,599,661	\$ 11,721	\$ --	\$ 3,611,382
Construction in progress	1,300,901	--	--	1,300,901
Total capital assets not being depreciated	<u>4,900,562</u>	<u>11,721</u>	<u>--</u>	<u>4,912,283</u>
Capital assets being depreciated:				
Buildings	14,244,396	70,900	--	14,315,296
Improvement other than buildings	2,731,890	--	--	2,731,890
Equipment	10,457,901	1,360,140	1,081,134	10,736,907
Infrastructure	45,540,437	393,131	--	45,933,568
Total capital assets being depreciated	<u>72,974,624</u>	<u>1,824,171</u>	<u>1,081,134</u>	<u>73,717,661</u>
Less accumulated depreciation for:				
Buildings	(3,764,125)	(337,511)	--	(4,101,636)
Improvement other than buildings	(1,280,492)	(105,785)	--	(1,386,277)
Equipment	(8,262,495)	(862,310)	(1,050,215)	(8,074,590)
Infrastructure	(23,827,046)	(913,173)	--	(24,740,219)
Total accumulated depreciation	<u>(37,134,158)</u>	<u>(2,218,779)</u>	<u>(1,050,215)</u>	<u>(38,302,722)</u>
Total capital assets being depreciated, net	<u>35,840,466</u>	<u>(394,608)</u>	<u>30,919</u>	<u>35,414,939</u>
Governmental activities capital assets, net	<u>\$ 40,741,028</u>	<u>\$ (382,887)</u>	<u>\$ 30,919</u>	<u>\$ 40,327,222</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,486,465	\$ 23,441	\$ --	\$ 1,509,906
Construction in progress	22,459,453	2,754,368	6,400,952	18,812,869
Total capital assets not being depreciated	<u>23,945,918</u>	<u>2,777,809</u>	<u>6,400,952</u>	<u>20,322,775</u>
Capital assets being depreciated:				
Water system, buildings & improvements	67,801,178	5,545,917	1,524,785	71,822,310
Sewer system, buildings & improvements	43,327,021	495,192	--	43,822,213
Landfill, buildings & improvements	4,576,655	--	449,144	4,127,511
Machinery and equipment	6,378,607	1,011,720	974,397	6,415,930
Total capital assets being depreciated	<u>122,083,461</u>	<u>7,052,829</u>	<u>2,948,326</u>	<u>126,187,964</u>
Less accumulated depreciation for:				
Water system, buildings & improvements	(27,273,805)	(1,295,372)	(1,291,058)	(27,278,119)
Sewer system, buildings & improvements	(25,339,565)	(878,712)	--	(26,218,277)
Landfill, buildings & improvements	(2,304,583)	(161,402)	(449,144)	(2,016,841)
Machinery and equipment	(4,254,976)	(522,886)	(961,953)	(3,815,909)
Total accumulated depreciation	<u>(59,172,929)</u>	<u>(2,858,372)</u>	<u>(2,702,155)</u>	<u>(59,329,146)</u>
Total capital assets being depreciated, net	<u>62,910,532</u>	<u>4,194,457</u>	<u>246,171</u>	<u>66,858,818</u>
Business-type activities capital assets, net	<u>\$ 86,856,450</u>	<u>\$ 6,972,266</u>	<u>\$ 6,647,123</u>	<u>\$ 87,181,593</u>

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Depreciation was charged to functions as follows:

General government	\$ 159,671
Public safety	783,114
Highways and streets	1,073,422
Culture and recreation	158,313
Economic development and assistance	44,259
	<u>\$ 2,218,779</u>

The City's commitments as of September 30, 2009 on active construction projects are summarized as follows:

Project	Total Project	Spent to Date	Remaining Commitment
2002 SRF Projects	\$ 13,427,031	\$ 13,385,607	\$ 41,424
2004 SRF Sewer Collection System Improvements	10,365,000	5,410,579	4,954,421
2006 SRF Projects	11,265,000	1,227,922	10,037,078
Drainage Improvements	12,000,000	752,919	11,247,081
Transportation Improvements	150,000	85,000	65,000
Landfill Improvements	1,678,618	168,235	1,510,383
Totals	<u>\$ 48,885,649</u>	<u>\$ 21,030,262</u>	<u>\$ 27,855,387</u>

F. Interfund Balances and Activity

1. Due To and From Other Funds

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

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Non-major enterprise fund	\$ 71,000	Cash advance for airport fuel operations (FBO)
General Fund	Agency fund	5,000	Cash advance for cafeteria plan
	Total	<u>\$ 76,000</u>	

All amounts due are scheduled to be repaid within one year. In addition to the above schedule, there is \$201,020 due from Governmental Activities to Business-Type Activities resulting from the split of the Health Insurance Internal Service Fund equity between governmental activities and business-type activities.

CITY OF NACOGDOCHES, TEXAS
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2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
General Fund	Non-major Governmental	\$ 150,155	Supplement sources of funds and fund the ORCA economic development agreement for \$100,000
General Fund	Non-major Enterprise	81,530	Supplement funds for airport
General Fund	Internal Service Fund	27,976	Supplement sources of funds
Water & Sewer	General Fund	3,220,430	Supplement sources of funds and remit franchise fees
Sanitation	General Fund	1,856,000	Supplement sources of funds and remit franchise fees
Internal Service	General Fund	24,500	Supplement sources of funds
Non-major Governmental	General Fund	1,930	Supplement sources of funds
Non-major Governmental	Non-major Governmental	25,000	Supplement sources of funds
	Total	\$ 5,387,521	

G. Long-Term Obligations

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2009, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 11,405,000	\$ --	\$ 540,000	\$ 10,865,000	565,000
Bond premium (discount)	6,382	--	4,410	1,972	--
Capital leases	34,444	--	21,520	12,924	12,924
Notes	28,534	--	28,534	--	--
Compensated absences *	1,404,469	84,316	29,435	1,459,350	98,328
Total governmental activities	\$ 12,878,829	\$ 84,316	\$ 623,899	\$ 12,339,246	\$ 676,252
Business-type activities:					
General obligation bonds	\$ 4,670,000	\$ --	\$ 1,405,000	\$ 3,265,000	1,220,000
Revenue bonds	52,710,000	2,330,000	1,725,000	53,315,000	2,105,000
Bond premium (discount)	99,792	--	36,315	63,477	--
Meter deposits *	146,733	--	4,464	142,269	--
Compensated absences *	265,747	3,960	15,586	254,121	20,150
Landfill closure costs *	4,044,246	295,392	--	4,339,638	--
Total business-type activities	\$ 61,936,518	\$ 2,629,352	\$ 3,186,365	\$ 61,379,505	\$ 3,345,150

* Other long-term liabilities

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The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund
Meter deposits	Business-type	Water & Sewer and Sanitation Funds
Compensated absences	Business-type	Water & Sewer and Sanitation Funds
Landfill closure costs	Business-type	Sanitation Fund

General obligation bonds consisted of the following issues at September 30, 2009:

	<u>Balance at 9/30/09</u>
Governmental Activities:	
General Obligation Bonds:	
\$4,000,000 Tax & Utility System Revenue Certificates of Obligation, dated April 1, 1998, with interest from 3.70 to 4.55%, maturing serially through 2017, with installments averaging \$417,000 per year.	\$ 3,540,000
\$1,000,000 Tax & Utility System Revenue Certificates of Obligation, dated September 1, 2000, with interest from 5.0 to 6.0%, maturing serially through 2015, with installments averaging \$132,000 per year.	1,000,000
\$6,800,000 Tax & Utility System Revenue Certificates of Obligation, dated May 1, 2002, with interest from 4.6 to 6.5%, maturing serially through 2022, with installments averaging \$635,000 per year.	6,030,000
\$1,795,000 General Obligation Refunding Bonds, dated April 1, 2003, with interest from 3.5 to 3.6%, maturing serially through 2010, with installments averaging \$340,000 per year.	295,000
Total governmental activities	<u>\$ 10,865,000</u>
Business-type Activities:	
General Obligation Bonds:	
\$2,000,000 Tax & Utility System Revenue Certificates of Obligation, dated September 1, 2000, with interest from 5.0 to 6.0%, maturing serially through 2015, with installments averaging \$260,000 per year.	\$ 250,000
\$7,145,000 General Obligation Refunding Bonds, dated April 1, 2003, with interest from 3.5 to 3.6%, maturing serially through 2012, with installments averaging \$1,007,000 per year.	3,015,000
Total general obligation bonds	<u>\$ 3,265,000</u>

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Revenue Bonds:	
\$5,900,000 Waterworks & Sewer System Revenue Bonds, dated July 1, 1998, interest from 2.45 to 3.85%, maturing serially through 2018, with installments averaging \$418,000 per year.	\$ 3,170,000
\$18,835,000 Waterworks & Sewer System Revenue Bonds, dated February 1, 2001, interest from 2.4 to 3.65%, maturing serially through 2028. Installments average \$1,027,000 per year.	18,615,000
\$17,630,000 Waterworks & Sewer System Revenue Bonds, dated March 1, 2002, interest from 2.4 to 3.65%, maturing serially through 2034. \$17,375,000 has been drawn as of September 30, 2009. Installments, when fully funded, will average \$1,105,000 per year.	17,300,000
\$10,365,000 Waterworks & Sewer System Revenue Bonds, dated March 1, 2004, interest from 0 to 2.65%, maturing serially through 2025, with installments averaging \$610,000 per year.	8,655,000
\$11,520,000 Waterworks & Sewer System Revenue Bonds, dated April 1, 2006, interest from 1.97% to 3.13%, maturing serially through 2027. \$1,060,000 has been drawn as of September 30, 2009. Installments, when fully funded, average \$610,000 per year.	780,000
\$5,400,000 Waterworks & Sewer System Revenue Bonds, dated April 1, 2008, interest from 3.25% to 3.375%, maturing serially through 2015, with installments averaging \$880,000 per year.	4,795,000
Total revenue bonds	<u>\$ 53,315,000</u>
Total business-type activities	<u>\$ 56,580,000</u>

Capital leases payable consisted of the following issue at September 30, 2009:

Governmental Activities:	
Lease-purchase of police vehicles and street maintenance truck. The lease bears interest at 3.685%, requires monthly payments from \$1,869 to \$8,158 through 2010. The equipment purchased is security on the lease.	\$ <u>12,924</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2009, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 565,000	\$ 546,757	\$ 1,111,757
2011	705,000	520,288	1,225,288
2012	740,000	484,355	1,224,355
2013	775,000	446,145	1,221,145
2014	815,000	407,395	1,222,395
2015-2019	4,260,000	1,415,587	5,675,587
2020-2024	3,005,000	311,687	3,316,687
Totals	<u>\$ 10,865,000</u>	<u>\$ 4,132,214</u>	<u>\$ 14,997,214</u>

CITY OF NACOGDOCHES, TEXAS
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Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 3,325,000	\$ 1,833,581	\$ 5,158,581
2011	3,165,000	1,738,945	4,903,945
2012	3,120,000	1,647,544	4,767,544
2013	2,850,000	1,541,722	4,391,722
2014	2,940,000	1,457,491	4,397,491
2015-2019	12,220,000	6,091,265	18,311,265
2020-2024	12,665,000	4,108,521	16,773,521
2025-2029	10,550,000	2,029,199	12,579,199
2030-2034	5,745,000	454,321	6,199,321
Totals	<u>\$ 56,580,000</u>	<u>\$ 20,902,589</u>	<u>\$ 77,482,589</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2009, as follows:

Year Ending September 30:	
2010	\$ 12,924
Total Minimum Rentals	<u>\$ 12,924</u>

The effective interest rate on capital leases is 3.690%. At September 30, 2009, the cost of assets under capital leases was \$312,128 with accumulated depreciation of \$275,713.

4. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

5. Bonds Authorized and Unissued

At September 30, 2009, the City had \$10,715,000 in Water and Sewer Revenue Bonds, which were authorized and unissued.

6. Compensated Absences

Compensated absences represented the estimate liability for employees accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

CITY OF NACOGDOCHES, TEXAS
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H. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2009, as follows:

<u>Year Ending September 30,</u>	
2010	\$ 93,192
2011	4,068
2012	4,068
2013	4,068
Total Minimum Rentals	\$ <u>105,396</u>
Rental Expenditures in 2009	\$ <u>165,400</u>

I. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

The City has entered into an agreement with Blue Cross Blue Shield of Texas to administer its employee health benefit plan. Under the terms of the agreement, the administrator (1) reviews claims for benefits under the plan and determines whether they have been properly filed and determines the amount, if any, which is due and payable with respect thereto, (2) on behalf of the City, disburses claim payments that it determines to be due in accordance with the provisions of the plan to the eligible individual or assignee of such eligible individual entitled thereto, and (3) takes all reasonable steps to process claims and disburse claim payments expeditiously.

The Plan provides coverage of up to \$75,000 for each individual. The City has reinsurance agreement for the plan that provides coverage per individual claim in excess of \$75,000 per year. In addition, the reinsurance agreement provides \$1,000,000 in coverage when aggregate claims exceed a threshold, calculated based on a minimum attachment point of \$1,102,505.

Under the terms of the plan, eligible claims and related expenses are paid from premiums paid by covered employees and the various funds of the City in which they are employed.

During the year ended September 30, 2009, the City began providing health care benefits to its employees under a self-insurance plan. In prior years, the City purchased commercial health insurance for this benefit. The City accounts for the transactions of the plan in the Group Health Insurance Fund, an Internal Service Fund. At September 30, 2009, the City had recorded a liability of \$83,740 for claims incurred but not paid at that date. This liability was based on a review of claims paid subsequent to the end of the year.

CITY OF NACOGDOCHES, TEXAS
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Changes in the balances of liabilities were as follows:

Fiscal Year Ended	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balance At Fiscal Year End
September 30, 2008	\$ --	\$ 855,693	\$ 771,953	\$ 83,740
September 30, 2009	83,740	1,094,017	1,138,616	39,141

J. Pension Plan

1. Plan Description

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tMrs.org>.

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2009, 2008 and 2007 were \$2,302,757, \$2,068,778 and \$1,759,570, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$2,302,757 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999).

Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

CITY OF NACOGDOCHES, TEXAS
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4. Actuarial Information:

Actuarial valuation date	12/31/2008
Actuarial cost method	Unit Credit
Amortization method	Level Percentage of Payroll
Amortization period	25 Years - Open Period
Asset valuation method	Amortized Cost
Actuarial assumptions:	
Investment return rate	7.00%
Projected salary increases	None
Inflation	3.50%
Cost-of-living adjustment	None

5. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2007	\$ 1,759,863	100%	\$ --
9/30/2008	2,068,778	100%	--
9/30/2009	2,302,757	100%	--

Analysis of Funding Progress

Fiscal Year Ending	(1) Actuarial Value of Assets *	(2) Actuarial Accrued Liability *	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability
9/30/2007	\$ 26,839,410	\$ 40,147,276	67%	\$ 13,307,866
9/30/2008	26,717,175	48,927,654	55%	22,210,479
9/30/2009	25,360,972	50,862,660	50%	25,501,688

Fiscal Year Ending	(5) Annual Covered Payroll	(6) Unfunded Actuarial Liability As a Percentage of Covered Payroll
9/30/2007	\$ 11,293,133	118%
9/30/2008	13,966,636	159%
9/30/2009	14,188,661	180%

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

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K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2009.

L. Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$4,339,638 reported as landfill closure and postclosure care liability at September 30, 2009, represents the cumulative amount reported to date based on the use of 83 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,654,416 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009. The City expects to close the landfill in the year 2029. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and, at September 30, 2009, investments of \$1,883,943 fair value are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

CITY OF NACOGDOCHES, TEXAS
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M. Receivables

The disaggregation of receivables is summarized as follows:

	Governmental Funds	Proprietary Funds
Property taxes, net of allowance of \$158,806	\$ 296,164	\$
Customer accounts, net of allowance of \$304,668	15,907	1,313,470
Unbilled utility receivable		905,728
Due from State government for sales taxes	365,659	
Due from Federal government for grants	584,464	20,020
Amount due under economic development loans, net	469,673	
Other	93,607	
Totals	<u>\$ 1,825,474</u>	<u>\$ 2,239,218</u>

The City has been the recipient of grants from the State and Federal governments for economic development. In accordance with the terms of the grants, funds have been loaned to specific entities at interest rates varying from four percent to six percent. Under the terms of the grants, the City is required to utilize repaid funds exclusively in the City of Nacogdoches for eligible economic development activities in accordance with the provisions of Title I of the Housing and Community development Act of 1974, as amended.

In 2007, the City abated \$2,883,237 in Economic Development Loans. As a result, the City entered into an agreement with the Texas Office of Rural Community Affairs (ORCA) to pay \$1,255,347 into the Revolving Loan Fund over 13 years. This fund will only be used for economic development loans in the future. The City complied with this directive by transferring \$100,000 into the Revolving Loan Fund in the current year.

The remaining receivables are to be repaid beginning in 2010.

	Balance Beginning of Fiscal Year	New Loans	Debt Repayments	Balance End of Fiscal Year
Effective Teleservices, Inc.	\$ 300,000	\$ --	\$ --	\$ 300,000
Southwest Scooters	--	180,000	11,983	168,017
Totals	<u>\$ 300,000</u>	<u>\$ 180,000</u>	<u>\$ 11,983</u>	<u>\$ 468,017</u>

Equity of the Economic Development Fund has been reserved for the total loan balance above.

N. Restricted and Reserved Equity

Restricted net assets in the Statement of Net Assets consisted of the following:

	Governmental Activities	Business-type Activities
Debt service	\$ 180,516	\$ 4,975,297
Construction	253,753	7,334,109
Nonexpendable trust fund	265,689	
Economic development	569,206	
Landfill closure		1,883,943
Other - court fees	161,114	
Total restricted net assets	<u>\$ 1,430,278</u>	<u>\$ 14,193,349</u>

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Reserved fund balance in the Governmental Funds Balance Sheet consisted of the following:

	General Fund	Debt Service Fund	Special Revenue Funds
Special purpose - court fees	\$ 161,114		
Debt service		\$ 180,516	
Economic development			\$ 101,189
Non-current loans			468,017
Permanent trust fund			265,689
Total restricted net assets	<u>\$ 161,114</u>	<u>\$ 180,516</u>	<u>\$ 834,895</u>

Restricted net assets in the Proprietary Funds Balance Sheet consisted of the following:

	Water & Sewer Fund	Sanitation Fund
Debt service	\$ 4,975,297	
Construction	7,334,109	
Landfill closure		\$ 1,883,943
Total restricted net assets	<u>\$ 12,309,406</u>	<u>\$ 1,883,943</u>

O. Other Disclosures

The government-wide financial statements include prior period adjustments to correct the following:

	Governmental Activities	Business-type Activities
Increases (decreases) in net assets:		
Change to receivable from FEMA for a reduction in the reimbursement of certain payroll costs during hurricane Ike	\$ (391,967)	
Reclassification of grant reimbursement from revenue to deferred revenue		(50,000)
Corrections to cash balances	517	
Total increase (decrease)	<u>\$ (391,450)</u>	<u>\$ (50,000)</u>

The individual fund financial statements include prior period adjustments to correct the following:

	General Fund	Non-Major Special Revenue Funds	Water & Sewer Fund
Increases (decreases) in fund equity:			
Move current portion of accrued compensated absences to long-term debt	\$ 97,156		
Change to receivable from FEMA for a reduction in the reimbursement of certain payroll costs during hurricane Ike	(391,967)		
Move receivable for SHSP grant from non-major special revenue fund to the general fund	14,105	(14,105)	
Reclassification of grant reimbursement from revenue to deferred revenue			(50,000)
Corrections to cash balances	1,200	(684)	
Total increase (decrease)	<u>\$ (279,506)</u>	<u>\$ (14,789)</u>	<u>\$ (50,000)</u>

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF NACOGDOCHES, TEXAS

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	Special Revenue Funds	Permanent Fund Sunset Trust Fund	Total Nonmajor Governmental Funds (See
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 985,104	\$ 65,688	\$ 1,050,792
Investments	--	200,000	200,000
Customer accounts receivable	1,656	--	1,656
Due from other governments	66,174	--	66,174
Advances for economic development	468,017	--	468,017
Cash - Restricted	224,863	--	224,863
Total Assets	<u>\$ 1,745,814</u>	<u>\$ 265,688</u>	<u>\$ 2,011,502</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,466	\$ --	\$ 2,466
Accrued expenditures	1,525	--	1,525
Deferred revenue	14,320	--	14,320
Total Liabilities	<u>18,311</u>	<u>--</u>	<u>18,311</u>
Fund Balances:			
Reserved for:			
Capital projects	253,753	--	253,753
Economic development	101,189	--	101,189
Non-current loans	468,017	--	468,017
Permanent trust	--	265,688	265,688
Unreserved, undesignated reported in:			
Special revenue funds	904,544	--	904,544
Total Fund Balances	<u>1,727,503</u>	<u>265,688</u>	<u>1,993,191</u>
Total Liabilities and Fund Balances	<u>\$ 1,745,814</u>	<u>\$ 265,688</u>	<u>\$ 2,011,502</u>

CITY OF NACOGDOCHES, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Special Revenue Funds	Permanent Fund Sunset Trust Fund	Total Nonmajor Governmental Funds (See
Revenue			
Taxes:			
Hotel/motel occupancy taxes	\$ 1,054,277	\$ --	\$ 1,054,277
Fines and forfeitures	106,701	--	106,701
Penalties on tax collections	6,424	--	6,424
Investment earnings	6,304	1,930	8,234
Intergovernmental	358,977	--	358,977
Miscellaneous	279,115	--	279,115
Total revenues	<u>1,811,798</u>	<u>1,930</u>	<u>1,813,728</u>
Expenditures			
Current:			
General government	46,532	--	46,532
Public safety	254,397	--	254,397
Culture and recreation	108,848	--	108,848
Community development	1,030,252	--	1,030,252
Total Expenditures	<u>1,440,029</u>	<u>--</u>	<u>1,440,029</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>371,769</u>	<u>1,930</u>	<u>373,699</u>
Other financing sources (uses)			
Operating transfers in	171,875	3,280	175,155
Operating transfers out	(25,000)	(1,930)	(26,930)
Total other financing sources (uses)	<u>146,875</u>	<u>1,350</u>	<u>148,225</u>
Net Change in Fund Balances	518,644	3,280	521,924
Fund Balances - Beginning	1,223,648	262,408	1,486,056
Prior Period Adjustment	(14,789)	--	(14,789)
Fund Balances - Beginning as Restated	<u>1,208,859</u>	<u>262,408</u>	<u>1,471,267</u>
Fund Balances - Ending	<u>\$ 1,727,503</u>	<u>\$ 265,688</u>	<u>\$ 1,993,191</u>

CITY OF NACOGDOCHES, TEXAS

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2009

	Economic Development Fund	Community Development Fund	Forfeiture Fund	Historical Fund
ASSETS				
Cash and cash equivalents	\$ 99,106	\$ --	\$ --	\$ 71,282
Customer accounts receivable	1,656	--	--	--
Due from other governments	--	--	--	--
Advances for economic development	468,017	--	--	--
Cash - Restricted	--	48,722	176,141	--
Total Assets	<u>\$ 568,779</u>	<u>\$ 48,722</u>	<u>\$ 176,141</u>	<u>\$ 71,282</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ --
Accrued expenditures	--	--	--	--
Deferred revenue	--	--	14,320	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>14,320</u>	<u>--</u>
Fund Balances:				
Reserved for:				
Capital projects	--	--	--	--
Economic development	99,106	2,083	--	--
Non-current loans	468,017	--	--	--
Unreserved, undesignated reported in:				
Special revenue funds	1,656	46,639	161,821	71,282
Total Fund Balances	<u>568,779</u>	<u>48,722</u>	<u>161,821</u>	<u>71,282</u>
Total Liabilities and Fund Balances	<u>\$ 568,779</u>	<u>\$ 48,722</u>	<u>\$ 176,141</u>	<u>\$ 71,282</u>

Hotel & Motel Fund	Public Safety Fund	Mayor's Committee on Disabilities	Special Grants Fund	Total Nonmajor Special Revenue Funds
\$ 574,806	\$ 8,982	\$ 8,798	\$ 222,130	\$ 985,104
--	--	--	--	1,656
--	--	--	66,174	66,174
--	--	--	--	468,017
--	--	--	--	224,863
<u>\$ 574,806</u>	<u>\$ 8,982</u>	<u>\$ 8,798</u>	<u>\$ 288,304</u>	<u>\$ 1,745,814</u>
\$ --	\$ --	\$ --	\$ 2,466	\$ 2,466
--	--	--	1,525	1,525
--	--	--	--	14,320
<u>--</u>	<u>--</u>	<u>--</u>	<u>3,991</u>	<u>18,311</u>
--	--	--	253,753	253,753
--	--	--	--	101,189
--	--	--	--	468,017
574,806	8,982	8,798	30,560	904,544
<u>574,806</u>	<u>8,982</u>	<u>8,798</u>	<u>284,313</u>	<u>1,727,503</u>
<u>\$ 574,806</u>	<u>\$ 8,982</u>	<u>\$ 8,798</u>	<u>\$ 288,304</u>	<u>\$ 1,745,814</u>

CITY OF NACOGDOCHES, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Economic Development Fund	Community Development Fund	Forfeiture Fund	Historical Fund
Revenue				
Taxes:				
Hotel/motel occupancy taxes	\$ --	\$ --	\$ --	\$ --
Fines and forfeitures	--	--	106,701	--
Penalties on tax collections	--	--	--	--
Investment earnings	3,222	--	232	105
Intergovernmental	--	--	--	--
Miscellaneous	--	169,000	--	--
Total revenues	<u>3,222</u>	<u>169,000</u>	<u>106,933</u>	<u>105</u>
Expenditures				
Current:				
General government	--	--	46,532	--
Public safety	--	--	--	--
Culture and recreation	--	--	--	--
Community development	--	181,236	--	22,643
Total Expenditures	<u>--</u>	<u>181,236</u>	<u>46,532</u>	<u>22,643</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,222</u>	<u>(12,236)</u>	<u>60,401</u>	<u>(22,538)</u>
Other financing sources (uses)				
Operating transfers in	100,000	46,875	--	25,000
Operating transfers out	--	--	--	--
Total other financing sources (uses)	<u>100,000</u>	<u>46,875</u>	<u>--</u>	<u>25,000</u>
Net Change in Fund Balances	103,222	34,639	60,401	2,462
Fund Balances - Beginning	465,557	14,083	102,104	68,820
Prior Period Adjustment	--	--	(684)	--
Fund Balances - Beginning as Restated	<u>465,557</u>	<u>14,083</u>	<u>101,420</u>	<u>68,820</u>
Fund Balances - Ending	<u>\$ 568,779</u>	<u>\$ 48,722</u>	<u>\$ 161,821</u>	<u>\$ 71,282</u>

Hotel & Motel Fund	Public Safety Fund	Mayor's Committee on Disabilities	Special Grants Fund	Total Nonmajor Special Revenue Funds
\$ 1,054,277	\$ --	\$ --	\$ --	\$ 1,054,277
--	--	--	--	106,701
6,424	--	--	--	6,424
2,371	7	14	353	6,304
--	6,069	--	352,908	358,977
3,340	--	2,775	104,000	279,115
<u>1,066,412</u>	<u>6,076</u>	<u>2,789</u>	<u>457,261</u>	<u>1,811,798</u>
--	--	--	--	46,532
--	1,243	--	253,154	254,397
--	--	--	108,848	108,848
823,722	--	2,651	--	1,030,252
<u>823,722</u>	<u>1,243</u>	<u>2,651</u>	<u>362,002</u>	<u>1,440,029</u>
<u>242,690</u>	<u>4,833</u>	<u>138</u>	<u>95,259</u>	<u>371,769</u>
--	--	--	--	171,875
(25,000)	--	--	--	(25,000)
<u>(25,000)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>146,875</u>
217,690	4,833	138	95,259	518,644
357,116	4,149	8,660	203,159	1,223,648
--	--	--	(14,105)	(14,789)
<u>357,116</u>	<u>4,149</u>	<u>8,660</u>	<u>189,054</u>	<u>1,208,859</u>
<u>\$ 574,806</u>	<u>\$ 8,982</u>	<u>\$ 8,798</u>	<u>\$ 284,313</u>	<u>\$ 1,727,503</u>

CITY OF NACOGDOCHES, TEXAS
 ECONOMIC DEVELOPMENT FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Investment earnings	\$ 100	\$ 3,222	\$ 3,122
Total revenues	<u>100</u>	<u>3,222</u>	<u>3,122</u>
Expenditures:			
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>100</u>	<u>3,222</u>	<u>3,122</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>100,000</u>	<u>100,000</u>	<u>--</u>
Total other financing sources (uses)	<u>100,000</u>	<u>100,000</u>	<u>--</u>
Net Change in Fund Balances	100,100	103,222	3,122
Fund Balances - Beginning	465,557	465,557	--
Fund Balances - Ending	<u>\$ 565,657</u>	<u>\$ 568,779</u>	<u>\$ 3,122</u>

CITY OF NACOGDOCHES, TEXAS
COMMUNITY DEVELOPMENT FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue			
Taxes:			
Intergovernmental	\$ 250,000	\$ --	\$ (250,000)
Miscellaneous	169,000	169,000	--
Total revenues	<u>419,000</u>	<u>169,000</u>	<u>(250,000)</u>
Expenditures:			
Community Development	<u>169,000</u>	<u>181,236</u>	<u>(12,236)</u>
Total Expenditures	<u>169,000</u>	<u>181,236</u>	<u>(12,236)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>250,000</u>	<u>(12,236)</u>	<u>(262,236)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>46,875</u>	<u>46,875</u>	<u>--</u>
Total other financing sources (uses)	<u>46,875</u>	<u>46,875</u>	<u>--</u>
Net Change in Fund Balances	296,875	34,639	(262,236)
Fund Balances - Beginning	111,372	14,083	(97,289)
Fund Balances - Ending	<u>\$ 408,247</u>	<u>\$ 48,722</u>	<u>\$ (359,525)</u>

CITY OF NACOGDOCHES, TEXAS

FORFEITURE FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Fines and forfeitures	\$ 1,000	\$ 106,701	\$ 105,701
Investment earnings	100	232	132
Total revenues	<u>1,100</u>	<u>106,933</u>	<u>105,833</u>
Expenditures:			
General government:			
Non-Departmental	1,100	46,532	(45,432)
Total General Government	<u>1,100</u>	<u>46,532</u>	<u>(45,432)</u>
Total Expenditures	<u>1,100</u>	<u>46,532</u>	<u>(45,432)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>60,401</u>	<u>60,401</u>
Other Financing Sources (Uses):			
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	<u>--</u>	<u>60,401</u>	<u>60,401</u>
Fund Balances - Beginning	101,420	102,104	684
Prior Period Adjustment	--	(684)	(684)
Fund Balances - Beginning as Restated	<u>101,420</u>	<u>101,420</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 101,420</u>	<u>\$ 161,821</u>	<u>\$ 60,401</u>

CITY OF NACOGDOCHES, TEXAS
HISTORICAL FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Investment earnings	\$ 200	\$ 105	\$ (95)
Intergovernmental	13,400	--	(13,400)
Total revenues	<u>13,600</u>	<u>105</u>	<u>(13,495)</u>
Expenditures:			
Community Development	<u>38,500</u>	<u>22,643</u>	<u>15,857</u>
Total Expenditures	<u>38,500</u>	<u>22,643</u>	<u>15,857</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(24,900)</u>	<u>(22,538)</u>	<u>2,362</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>--</u>
Net Change in Fund Balances	100	2,462	2,362
Fund Balances - Beginning	68,820	68,820	--
Fund Balances - Ending	<u>\$ 68,920</u>	<u>\$ 71,282</u>	<u>\$ 2,362</u>

CITY OF NACOGDOCHES, TEXAS
HOTEL & MOTEL FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Hotel/motel occupancy taxes	\$ 750,000	\$ 1,054,277	\$ 304,277
Penalties on tax collections	--	6,424	6,424
Investment earnings	3,000	2,371	(629)
Miscellaneous	--	3,340	3,340
Total revenues	<u>753,000</u>	<u>1,066,412</u>	<u>313,412</u>
Expenditures:			
Community Development	<u>673,750</u>	<u>823,722</u>	<u>(149,972)</u>
Total Expenditures	<u>673,750</u>	<u>823,722</u>	<u>(149,972)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>79,250</u>	<u>242,690</u>	<u>163,440</u>
Other Financing Sources (Uses):			
Operating transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>--</u>
Total other financing sources (uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>--</u>
Net Change in Fund Balances	54,250	217,690	163,440
Fund Balances - Beginning	357,116	357,116	--
Fund Balances - Ending	<u>\$ 411,366</u>	<u>\$ 574,806</u>	<u>\$ 163,440</u>

CITY OF NACOGDOCHES, TEXAS
 PUBLIC SAFETY FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Investment earnings	\$ --	\$ 7	\$ 7
Intergovernmental	5,500	6,069	569
Total revenues	<u>5,500</u>	<u>6,076</u>	<u>576</u>
Expenditures:			
Public Safety:			
Police Department	5,000	1,243	3,757
Total Public Safety	<u>5,000</u>	<u>1,243</u>	<u>3,757</u>
Total Expenditures	<u>5,000</u>	<u>1,243</u>	<u>3,757</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>500</u>	<u>4,833</u>	<u>4,333</u>
Other Financing Sources (Uses):			
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	500	4,833	4,333
Fund Balances - Beginning	4,149	4,149	--
Fund Balances - Ending	<u>\$ 4,649</u>	<u>\$ 8,982</u>	<u>\$ 4,333</u>

CITY OF NACOGDOCHES, TEXAS
MAYOR'S COMMITTEE ON DISABILITIES FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue			
Taxes:			
Investment earnings	\$ 50	\$ 14	\$ (36)
Miscellaneous	<u>1,000</u>	<u>2,775</u>	<u>1,775</u>
Total revenues	<u>1,050</u>	<u>2,789</u>	<u>1,739</u>
Expenditures:			
Community Development	<u>1,000</u>	<u>2,651</u>	<u>(1,651)</u>
Total Expenditures	<u>1,000</u>	<u>2,651</u>	<u>(1,651)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>50</u>	<u>138</u>	<u>88</u>
Other Financing Sources (Uses):			
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	50	138	88
Fund Balances - Beginning	8,660	8,660	--
Fund Balances - Ending	<u>\$ 8,710</u>	<u>\$ 8,798</u>	<u>\$ 88</u>

CITY OF NACOGDOCHES, TEXAS

SPECIAL GRANTS FUND
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Investment earnings	\$ --	\$ 353	\$ 353
Intergovernmental	1,303,000	352,908	(950,092)
Miscellaneous	800,000	104,000	(696,000)
Total revenues	<u>2,103,000</u>	<u>457,261</u>	<u>(1,645,739)</u>
Expenditures:			
Public Safety:			
Police Department	--	214,795	(214,795)
Emergency Services	--	33,672	(33,672)
Fire Protection	--	1,989	(1,989)
Animal Control	--	2,698	(2,698)
Total Public Safety	<u>--</u>	<u>253,154</u>	<u>(253,154)</u>
Culture and Recreation:			
Historic Sites	--	22,157	(22,157)
Library	3,000	27,836	(24,836)
Parks	1,000,000	58,855	941,145
Total Culture and Recreation	<u>1,003,000</u>	<u>108,848</u>	<u>894,152</u>
Total Expenditures	<u>1,003,000</u>	<u>362,002</u>	<u>640,998</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,100,000</u>	<u>95,259</u>	<u>(1,004,741)</u>
Other Financing Sources (Uses):			
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	1,100,000	95,259	(1,004,741)
Fund Balances - Beginning	189,054	203,159	14,105
Prior Period Adjustment	--	(14,105)	(14,105)
Fund Balances - Beginning as Restated	<u>189,054</u>	<u>189,054</u>	<u>--</u>
Fund Balances - Ending	<u>\$ 1,289,054</u>	<u>\$ 284,313</u>	<u>\$ (1,004,741)</u>

CITY OF NACOGDOCHES, TEXAS

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budget	Actual	Variance Positive (Negative)
Revenue			
Taxes:			
Property taxes	\$ 1,111,300	\$ 1,126,249	\$ 14,949
Investment earnings	10,000	396	(9,604)
Total revenues	<u>1,121,300</u>	<u>1,126,645</u>	<u>5,345</u>
Expenditures:			
Debt Service:			
Principal	540,000	540,000	--
Interest	570,433	570,433	--
Total Debt Service	<u>1,110,433</u>	<u>1,110,433</u>	<u>--</u>
Total Expenditures	<u>1,110,433</u>	<u>1,110,433</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,867</u>	<u>16,212</u>	<u>5,345</u>
Other Financing Sources (Uses):			
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	10,867	16,212	5,345
Fund Balances - Beginning	164,304	164,304	--
Fund Balances - Ending	<u>\$ 175,171</u>	<u>\$ 180,516</u>	<u>\$ 5,345</u>

CITY OF NACOGDOCHES, TEXAS

COMBINING STATEMENT OF NET ASSETS

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2009

	Equipment Replacement Fund	Health Insurance Fund	Total Internal Service Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 674,207	\$ 517,070	\$ 1,191,277
Investments	400,000	400,000	800,000
Total Current Assets	<u>1,074,207</u>	<u>917,070</u>	<u>1,991,277</u>
Capital Assets (net accumulated depreciation):			
Office furniture and equipment	2,447,948	--	2,447,948
Less accumulated depreciation	(1,845,984)	--	(1,845,984)
Total Capital Assets	<u>601,964</u>	<u> </u>	<u>601,964</u>
 Total Assets	 <u>\$ 1,676,171</u>	 <u>\$ 917,070</u>	 <u>\$ 2,593,241</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities:			
Accrued expenses	\$ --	\$ 56,818	\$ 56,818
Total Current Liabilities	<u> </u>	<u>56,818</u>	<u>56,818</u>
Total Liabilities	<u> </u>	<u>56,818</u>	<u>56,818</u>
NET ASSETS			
Investment in capital assets, net of related debt	601,964	--	601,964
Unrestricted net assets	1,074,207	860,252	1,934,459
Total Net Assets	<u>1,676,171</u>	<u>860,252</u>	<u>2,536,423</u>
 Total Liabilities and Net Assets	 <u>\$ 1,676,171</u>	 <u>\$ 917,070</u>	 <u>\$ 2,593,241</u>

CITY OF NACOGDOCHES, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Equipment Replacement Fund	Health Insurance Fund	Total Internal Service Funds
OPERATING REVENUES			
Equipment rental	\$ 429,785	\$ --	\$ 429,785
Employer premiums	--	1,326,119	1,326,119
Employee premiums	--	331,440	331,440
Total charges for sales and services	<u>429,785</u>	<u>1,657,559</u>	<u>2,087,344</u>
Other:			
Miscellaneous revenue	71,070	--	71,070
Total Operating Revenues	<u>500,855</u>	<u>1,657,559</u>	<u>2,158,414</u>
Non-departmental	--	1,396,640	1,396,640
Depreciation and amortization	248,625	--	248,625
Total Operating Expenses	<u>248,625</u>	<u>1,396,640</u>	<u>1,645,265</u>
Operating Income	<u>252,230</u>	<u>260,919</u>	<u>513,149</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	3,306	875	4,181
Gain on sale of assets	6,655	--	6,655
Total Non-operating Revenues (Expenses)	<u>9,961</u>	<u>875</u>	<u>10,836</u>
Income before Transfers	262,191	261,794	523,985
Interfund operating transfers in	27,976	--	27,976
Interfund operating transfers out	<u>(24,500)</u>	<u>--</u>	<u>(24,500)</u>
Change in Net Assets	265,667	261,794	527,461
Total Net Assets - Beginning	1,410,504	598,458	2,008,962
Total Net Assets - Ending	<u>\$ 1,676,171</u>	<u>\$ 860,252</u>	<u>\$ 2,536,423</u>

CITY OF NACOGDOCHES, TEXAS
 COMBINING STATEMENT OF CASH FLOWS
 ALL INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Equipment Replacement Fund	Health Insurance Fund	Total Internal Service Funds (See Exhibit)
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ --	\$ 332,068	\$ 332,068
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	500,855	1,377,379	1,878,234
Cash Payments to Suppliers for Goods and Services	--	(1,502,328)	(1,502,328)
Net Cash Provided (Used) by Operating Activities	<u>500,855</u>	<u>207,119</u>	<u>707,974</u>
Cash Flows from Non-capital Financing Activities:			
Transfers From (To) Other Funds	3,476	--	3,476
Net Cash Provided (Used) by Non-capital Financing Activities	<u>3,476</u>	<u>--</u>	<u>3,476</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition or Construction of Capital Assets	(247,268)	--	(247,268)
Proceeds from Sale of Capital Assets	25,000	--	25,000
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(222,268)</u>	<u>--</u>	<u>(222,268)</u>
Cash Flows from Investing Activities:			
Purchase of Investment Securities	(400,000)	(400,000)	(800,000)
Interest and Dividends on Investments	3,306	875	4,181
Net Cash Provided (Used) for Investing Activities	<u>(396,694)</u>	<u>(399,125)</u>	<u>(795,819)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(114,631)	(192,006)	(306,637)
Cash and Cash Equivalents at Beginning of Year	788,838	709,076	1,497,914
Cash and Cash Equivalents at End of Year	<u>\$ 674,207</u>	<u>\$ 517,070</u>	<u>\$ 1,191,277</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 252,230	\$ 260,919	\$ 513,149
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	248,625	--	248,625
Change in Assets and Liabilities:			
Increase (Decrease) in Accounts Payable	--	(26,878)	(26,878)
Increase (Decrease) in Accrued Expenses	--	(26,922)	(26,922)
Total Adjustments	<u>248,625</u>	<u>(53,800)</u>	<u>194,825</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 500,855</u>	<u>\$ 207,119</u>	<u>\$ 707,974</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HALLS, JOHNSON, MCLEMORE, REDFIELD & RODRIGUES, LLP

CERTIFIED PUBLIC ACCOUNTANTS
A REGISTERED LIMITED LIABILITY PARTNERSHIP
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Michael Halls, CPA
Gary Johnson, CPA
Terre McLemore, CPA
J.D. Redfield, CPA
Kenneth Rodrigues, CPA, P.C.

Independent Auditor's Report

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

City Council
City of Nacogdoches, Texas
202 E. Pilar Street
Nacogdoches, Texas 75963

Members of the City 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 City of Nacogdoches, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 4, 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented by the City's internal control.

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

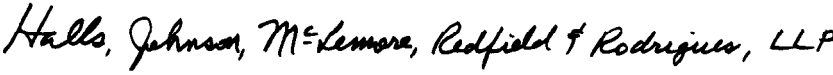
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

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

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

Respectfully submitted,



HALLS, JOHNSON, McLEMORE, REDFIELD & RODRIGUES, LLP
February 4, 2010

HALLS, JOHNSON, MCLEMORE, REDFIELD & RODRIGUES, LLP

CERTIFIED PUBLIC ACCOUNTANTS
A REGISTERED LIMITED LIABILITY PARTNERSHIP
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Kenneth Rodrigues, CPA, P.C.

Independent Auditor's Report

Report on Compliance with Requirements Applicable To each Major Program and on Internal Control over Compliance In Accordance With OMB Circular A-133

City Council
City of Nacogdoches, Texas
202 E. Pilar Street
Nacogdoches, Texas 75963

Members of the City Council:

Compliance

We have audited the compliance of City of Nacogdoches, Texas (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Respectfully submitted,

Halls, Johnson, McLeMore, Redfield & Rodriguez, LLP

HALLS, JOHNSON, McLEMORE, REDFIELD & RODRIGUES, LLP
February 4, 2010

CITY OF NACOGDOCHES, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Func

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF NACOGDOCHES, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
NO PRIOR FINDINGS		

CITY OF NACOGDOCHES, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Not Applicable - No Findings

CITY OF NACOGDOCHES, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Program:			
Congressionally Mandated Projects	66.202	XP-96610601	\$ 23,586
Passed Through Texas Water Development Board:			
Capitalization Grants for Drinking Water SRF 2002	66.468	n/a	1,645,000
Capitalization Grants for Drinking Water SRF 2006	66.468	n/a	685,000
Total Passed Through Texas Water Development Board			<u>2,330,000</u>
Total U. S. Environmental Protection Agency			<u>2,353,586</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Program:			
Step Wave 2009 *	20.600	2009-NACOG	14,609
Passed Through Texas Parks & Wildlife:			
Recreational Trails Program *	20.219	n/a	34,028
Passed Through Texas Dept of Transportation:			
Airport Improvement Program	20.106	AM2008-NACOG	6,956
Click-It-Or-Ticket *	20.600	2009-NACOG-CIOT	1,501
Total Passed Through Texas Dept of Transportation			<u>8,457</u>
Total U. S. Department of Transportation			<u>57,094</u>
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
Save America's Treasures	15.929	4808-AP-4139	19,712
Total U. S. Department of the Interior			<u>19,712</u>
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Direct Programs:			
E.B. Memorial State and Local Law Enforcement Asst	16.580	2008-DD-BX0520	112,348
Recovery Act - Edward Byrne Memorial Justice Assistance Grant	16.804	2009-SB-B90160	38,412
Bulletproof Vest Partnership Program	16.607	2005-BUBX-05026215	1,497
Total Direct Programs			<u>152,257</u>
Total U. S. Department of Justice			<u>152,257</u>
<u>U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed Through Texas Dept of Community Affairs:			
HOME Program	14.239	M-06-SG-480100	268
Total U. S. Department of Housing & Urban Development			<u>268</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Deep East Texas Council of Governments:			
Social Services Block Grant	93.667	n/a	19,497
Total U. S. Department of Health and Human Services			<u>19,497</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Programs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	3290-EM-TX	5,646
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1791-DR-TX	581,485
Total Direct Programs			<u>587,131</u>
Passed Through Texas Dept of Public Safety:			
Emergency Management Performance Grants	97.042	09TX-EMPG-0438	71,150
Passed Through Texas Dept of Emergency Management:			
Citizen Corps	97.053	2005-GE-T5-4025	\$ 4,006

CITY OF NACOGDOCHES, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
State Homeland Security Program 2007	97.073	n/a	\$ 17,324
State Homeland Security Program 2008	97.073	n/a	30,452
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2005-GE-T5-4025	705
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	HS-05094	32,301
Total Passed Through Texas Dept of Emergency Management			<u>84,788</u>
Total Department of Homeland Security			<u>743,069</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>3,345,483</u></u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

CITY OF NACOGDOCHES, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Nacogdoches, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.