

**CITY OF VICTORIA, TEXAS**  
*COMPREHENSIVE ANNUAL FINANCIAL REPORT*  
*For the year ended September 30, 2008*

Prepared by the Finance Department  
City of Victoria, Texas



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# CITY OF VICTORIA

Established 1824, Founded By Congress, Republic of Texas, 1839

## FINANCE DEPARTMENT

City Hall Square, Main at Juan Linn

March 11, 2009

Honorable Mayor and City Council  
City of Victoria  
Victoria, Texas

The Comprehensive Annual Financial Report of the City of Victoria, Texas (the "City"), as of September 30, 2008, and for the year then ended is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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

The City provides the traditional local government services under the direction of the Mayor and City Council, and all such activities are accounted for and reported within the basic funds. This report includes all funds of the City government. The financial statements of the Victoria Sales Tax Development Corporation and Victoria Recreation Corporation are also reported herein as discretely presented component units of the City. The reporting entity funds and various related entities are thoroughly discussed in the notes.

The City utilizes a Council-Manager form of government. The elected body is made up of a Mayor, who is elected at large, and six Council Members elected by district. The City Manager, appointed by the City Council, is responsible for the management of all City employees and administration of all City affairs. The City Council appoints several boards and commissions, most of which are used in an advisory capacity. Most of these boards and commissions have no operating budgets and no financial statements. The exception is the Victoria Sales Tax Development Corporation.

The following boards and commissions are appointed, partially or entirely, by Council:

1. Building Board
2. Housing Authority Board
3. Minimum Housing Board
4. Planning Commission
5. Cultural Council Board
6. Tax Increment Financing Board
7. Health Authority for City/County Health Dept.
8. Victoria Housing Finance Corporation Board
9. Building and Standards Commission
10. City-County Board of Health
11. Victoria Affordable Housing Council
12. Victoria Economic Development Corp.
13. Victoria Development Corporation
14. Electrical Board
15. Library Board
16. Parks and Recreation Commission
17. Mechanical Board
18. Plumbing Board
19. Sign Board
20. Victoria Sales Tax Corporation Board
21. Victoria Recreation Association Board
22. Food Establishment Board
23. Golden Crescent Regional Planning Comm.
24. Victoria County Appraisal District
25. Victoria Metropolitan Planning Commission
26. Victoria Health Facilities Development Corp.

The City provides a full range of municipal services to its citizens. In the public safety sector, the City maintains and operates a Fire Department and Police Department. In the public works sector, the City has the departments of Engineering and Traffic Control, Solid Waste Collection, Water/Wastewater, and Streets and Drainage. The City owns and operates a water pumping and distribution system, a surface water treatment facility, and a wastewater collection system. Wastewater treatment service is provided under a long-term contract with the Guadalupe-Blanco River Authority. Streets and Drainage provides street cleaning, street maintenance, and drainage structure maintenance, as well as some capability for new construction of streets, drainage structures, and sidewalks.

Also included in the City's program of services are a parks system, recreation program, building code inspections and enforcement department, and a convention hall/auditorium. The City of Victoria maintains its own in-house print shop, custodial service, and building maintenance service. In addition, the City has its own full-service garage for fleet maintenance and its own communication shop.

The departments of City Manager, City Attorney, City Secretary, and Municipal Court, according to the Charter, which was amended in May 1994, are created by City Council and answer to the City Manager. General staff support includes an in-house Planning Department, Human Resources Department, and Information Technology Department. The Finance Department includes all accounting, budgeting, and financial administration. At present, the City Manager utilizes one Deputy City Manager.

According to an interlocal agreement entered into between the City of Victoria and the County of Victoria, the City would provide fire and rescue services in return for a set reimbursement amount from the County. In addition, the City of Victoria would operate and manage library services at no cost to the County. By provisions of the interlocal agreement, the County of Victoria would provide health and animal control services at no cost to the City.

### **Economic Condition and Outlook**

Victoria is the "Crossroads" of South Texas which links Houston, Austin, San Antonio, Corpus Christi, and other Texas cities with major cities located at the border of Mexico and Texas. In addition to the major highways intersecting in Victoria, a barge canal links Victoria's major industry chemical plants - Invista, Dow Chemical, and British Petroleum Chemical - with other major cities located along the Gulf of Mexico.

More than 182,000 people live in the seven-county region known as the "Golden Crescent," which surrounds the Victoria Metropolitan Statistical Area (MSA). Calhoun, Dewitt, Lavaca, Gonzales, Jackson, Victoria, and Goliad Counties are in this region.

Though the petrochemical and oil and gas industries remain an important part of the region's economic base, other industry sectors have continued to develop and grow. Within the City of Victoria, diversification has been a driving force. Victoria, the county seat, is well represented by professional and financial services. Legal, accounting, engineer/design firms, as well as long-standing banking institutions, provide full service and support to the region's growing and diversifying economic base. This economic base has allowed the growth of hospitals and other medical facilities. Two major hospitals, Citizens Medical Center and DeTar Hospital, as well as many specialty physician groups represent the medical industry. These hospitals are two of the major employers of the area.

## **Economic Condition and Outlook - (Continued)**

Recent growth explosion in the retail sector has firmly established Victoria as a regional hub. A hub for medical, educational, financial, and retail services, Victoria is also home for a diverse manufacturing base. Plastics manufacturers include Covalence Specialty Materials Corporation and Sonoco Products. Heavy steel fabrication, pre-stressed concrete, and custom-design equipment manufacturers also call Victoria home.

These economic resources mentioned above are the forefront of our economic development efforts. The Victoria Economic Development Corporation is the public-private partnership arm of the City.

Victoria's 2008 fiscal year, from October 1, 2007, through September 30, 2008, has been extremely positive for our community and for our city organization. It is difficult to recall a year when there were so many projects and initiatives ongoing and changes are visible day to day. The last twelve months have been extremely busy for the City and additional development is ahead. This is a positive time for Victoria.

Victoria's conservative financial management and excellent bond rating continue to save money for our taxpayers. The City's bond rating was upgraded from A+ to AA- from both the Fitch Rating Agency and Standard and Poor's Rating Service. AA- rating is high for a city the size of Victoria and is very rare. (Note: professional credit risk analysts look at a broad number of factors and the long-term viability of Victoria. The bond rating companies reviewed the City's financial management policies, long term financial planning, debt per capita and management of prior debt proceeds. The analysts also reviewed Victoria's economic development efforts and prospects, demographics, steady growth rate, and leadership from City Council.)

The City began the 2008 fiscal year with a tax rate of \$0.675 per \$100 in property value, a decrease of \$0.015 from the prior year level of \$0.69 per \$100. Our fund balances held healthy reserves that continue to allow us the financial flexibility to deliver City services more efficiently and in ways that benefit all sectors of our community.

Victoria's financial condition continues to remain strong. Continued economic growth and fiscal conservatism are contributing factors in the City's financial well being. The City is substantially dependent on sales, ad valorem and franchise taxes, and utility billings. However, the City enjoys a broad retail sales and use tax base and is not dependent on any one or a few taxpayers for its sales and use tax revenue. The City should continue to experience economic growth, although at a slower pace due to the current housing and national financial economic conditions.

## **Major Initiatives**

### **For Fiscal Year 2008 and Into the Future:**

From several strategic planning sessions, several City Council priorities were established:

- Continued improvement to our infrastructure;
- Road improvements;
- Public safety;
- Transportation;
- Housing initiatives;
- Environmental issues;
- Water and landfill issues;
- Pay program;
- Routine capital expenditures;
- Maintaining an adequate General Fund fund balance; and
- Capital Improvement Program.

## **Major Initiatives - (Continued)**

### **For Fiscal Year 2008 and Into the Future: - (Continued)**

**Infrastructure** - Being a city that was founded 180 years ago, Victoria has an aging infrastructure in various stages of maintenance or repair. One of the major goals for the Council was to build value for its citizens by making significant improvements to the City's infrastructure.

Future city managers and city councils may look back on Victoria's first decade of this millennium as the "decade of infrastructure improvements." Since 2000, the City has spent \$300 million in major infrastructure projects to improve our streets, drainage, water and sewer service, and create a viable industrial park.

Investing \$300 million in infrastructure improvements results in vast economic benefits. Our economic growth continues its trend of increasing steadily but surely. Our Permits and Inspections Department reports that year-to-date, new commercial and residential valuation is at the same level as last year. Another \$94 million in major improvement projects are planned for the next five fiscal years (2008-2012).

Improvements to Victoria streets, drainage, and utilities have been a major priority for the City Council. The City is being proactive in addressing some of its drainage problems. Currently, the City has completed the first and second phase of the Lone Tree Creek Detention Basin Project. The first phase involved excavation of the detention basins located south of Airline Road between Tangerine Subdivision and Tanglewood Subdivision at a cost of \$1.9 million. The second phase of the project involved the continuation of the detention basin work with fine grading, seeding, and erosion control of the detention basins at a cost of \$678,000. The third phase of the project would consist of improving the channel by widening and reshaping the channel, adding an additional box culvert structure under Airline Road and under Ben Jordan Street, and providing hydro-mulch seeding on all disturbed areas. The reshaping of the channel reduces the impact of the Lone Tree Creek Floodplain on several adjacent neighborhoods including, Inwood Terrace, Tanglewood, and Greenway Park. The contract for the third phase was awarded in October 2007 at a cost of \$7.3 million and will be completed in FY 2009. The final phase of the Lone Tree Creek Detention Basin Project would consist of developing a trail along the detention basin at an estimated cost of \$1.38 million. The project, which was awarded in October 2007 and expected to be completed in FY 2009, consists of a ten (10) foot wide pathway, lighting, bench areas, and drinking fountains along Lone Tree Creek from Airline Road to John Stockbauer Drive.

When looking at traffic or transportation in general, Victoria has a lot to be thankful for and a lot to look forward to. Victoria has seen millions of federal and state transportation dollars come its way. With projects on every major State Highway within Victoria County, TXDOT has spent more than \$142 million in local highway improvements since 1996.

One of the most significant projects was the completion of US 77 north. This means Victoria now has four lane facilities all the way to the county line on all state and US Highways. Another major project was the construction of a two-lane section of Loop 463 from Salem Road to US Business 59. This project upgrades the current two-lane roadway to a four lane divided facility and, if funding is available, work on an overpass at Loop 463 and FM 1315 (Salem Road) should begin in Fiscal Year 2009. It should also be noted that TXDOT has another \$74 million in highway improvements planned for the near future, which will continue to enhance our transportation network. Some of these future TXDOT projects are as follows:

<b>Hwy.</b>	<b>Project Limits</b>	<b>Description</b>	<b>Work Begin</b>	<b>Estimated Cost</b>
US 59	At US 87 & US 59B	Widen Bridge and approaches	June 2008	\$13,492,000
US 87	From US 59B to North St.	Overlay - Asphaltic Concrete Pavement	March 2008	\$81,000
US 77B	From Airline to US 59B	Overlay - Asphaltic Concrete Pavement	March 2008	\$347,000
Loop 463	At Salem Road	Construct Grade Separation	December '09	\$7,500,000

## **Major Initiatives - (Continued)**

### **For Fiscal Year 2008 and Into the Future: - (Continued)**

**Infrastructure (continued)** - TXDOT is not the only agency that works on Victoria's transportation needs. The City of Victoria reconstructs and maintains all of the other roadways that get you to and from the state highways. Major arterials such as John Stockbauer, Mockingbird, Airline, Ben Jordan, and Miori Lane have all recently been resurfaced or completely reconstructed. Other major capital improvement projects currently going on around Victoria are as follows:

<b>Project Name</b>	<b>Description</b>	<b>Estimated Cost</b>
West Outfall - Phase 2 Drainage	Drainage Improvements - Woodlawn Subdivision	\$8.7 million
Lone Tree Road Reconstruction	Complete street maintenance project	\$14.2 million
Laurent Street Phase I Reconstruction	Street rebuild, new utilities from Rio Grande to Airline	\$12.1 million
King Subdivision Utility Improvement	Replace water & sanitary sewer lines & repave street	\$4.6 million

**Road Improvements** - Smaller scales of city infrastructure improvements happen everyday but are as important as large-scale projects. The City once again put a priority in making sure the City's streets are maintained adequately. The FY 2009 budget includes approximately \$1,944,690 for streets, \$50,000 for sidewalk improvements, and \$200,000 for utility lines, totaling a street maintenance program of \$2,194,690.

Currently, the City is rebuilding Lone Tree Road and Laurent Street - Phase I at an estimated cost of \$26.3 million; in addition, the City has plans to rebuild Laurent Street - Phase II and Sam Houston Street in Fiscal Year 2009 and 2010 at an estimated cost of \$33.7 million; and, Red River Street - Park Entrance in Fiscal Year 2009 at an estimated cost of \$1.9 million.

New motion-triggered traffic control equipment continues to be installed at many major intersections to relieve traffic congestion. Emergency vehicle preemptor devices that allow emergency vehicles the right of way have been strategically placed around the city. Our GIS mapping program continues to be updated with new color photographs and data, as is the web site that allows public access to those images.

**Public Safety** - Due to our prior years' commitment of increasing the police officer beginning salary and staff restructuring, our police force continues to be operating at full strength. We have been able to recruit and train more officers than ever before. Every year the City does a study on its police officer salary in order to make sure we continue this excellent trend. In addition, the City has implemented a program in prior years whereby the City will select certain individuals (selected from various police officer employment applications) to attend the police academy school. While attending the police academy school, the City will pay for police academy schooling and pay the individual to attend the police academy school.

As part of our effort to plan for the future, the City is in the process of completing a \$2.5 million construction project of a new Fire Station No. 4. With an adjustment in zones for the existing stations, this new fire station will help shorten our emergency response times in north Victoria. The new fire station will be located on Salem Road and will be operational by December 2008. The new Fire Station No. 4 will be staffed with 10 new fire fighters, at an estimated cost of \$538,000, and one additional new \$460,000 fire-pumper truck. In addition, once Fire Station No. 4 is completed, the City will proceed in relocating Fire Station No. 2 in order to comply with the modification of the fire station zoning plan. The relocation of Fire Station No. 2 will shorten the emergency response time within the central part of Victoria. The estimated cost for relocating Fire Station No. 2 is \$2.7 million. The old Fire Station No. 2 building will be used as a fire department administration office.

Our Fire Department continues to do an outstanding job responding to traffic accidents, medical emergencies, and hazardous material calls. Equally important, they continue to make inroads to teach our youth how to respond to fires, shelter in place emergencies, and how to improve fire safety in their homes. Victoria benefits from this type of safety education.

Over the past five fiscal years the City has been able to purchase 4 fire-pumper trucks in the amount of approximately \$1.7 million and 1 ladder truck at an estimated cost of \$950,000 without issuing any debt. In Fiscal Year 2009, the City is purchasing a new fire-pumper truck at an estimated cost of \$475,000, again without issuing debt.

## **Major Initiatives - (Continued)**

### **For Fiscal Year 2008 and Into the Future: - (Continued)**

**Public Transportation** - Victoria has another rising star and that is Victoria Transit. Victoria public transportation continues to grow since the idea of public transportation was first discussed by the City Council back in 1997 when the Planning Department was authorized to seek a public transportation grant. Since buses first rolled in 1999, what began in 1999 as an "On-Call" or demand response system has quickly grown into a four route fixed route system. In addition, Victoria Transit expanded its services on May 5, 2008. The expansion was due in part to additional funding from the Federal Job Access Reverse Commute (JARC) program, the Texas Workforce Solutions, and an increase in local funding from the City of Victoria. The main purpose of the JARC program is to enhance and provide better service to and from work, especially places of business that have extended hours or 24 hour shifts. It also enhances or provides better access for those individuals that do work extended hours or shift work, to medical services, shopping, and higher education. Victoria Transit provides rides to more than 20,000 individuals on a monthly basis which also includes an "On-Call" service for those who qualify as handicapped and disabled and a special needs service for medical transports.

**Housing Initiatives** - Housing initiatives have always been, and will continue to be, a priority for the City Council. The City of Victoria has developed a 55 lot subdivision for single-family housing called Swan Crossing, but it assumed a new role in this project, that of the developer. The subdivision is located at the northwest corner of Delmar Drive and Hanselman Road. This initiative will be a public-private partnership between the City, private builders and lenders.

Homes in the subdivision will range in size from 1,100 to 1,300 square feet and have 3 bedrooms, 2 baths and an oversized one car garage with prices starting at \$76,000. A majority of the homes in the subdivision must be sold to income qualified homebuyers and be able to qualify for a home mortgage (there are several participating lenders that are providing special terms just for Swan Crossing Subdivision). Income qualified homebuyers will receive the lot value (estimated at \$15,000) through a 5 year deferred, forgivable loan. This means at the end of five years the loan is completely forgiven and you own the lot free and clear. Some assistance is also available to help with principal buy-down and closing cost.

Our Planning Department continues to perform admirably in our Target Neighborhood Program, where older neighborhoods are modernized. In-home repair programs, and in some cases new homes themselves, are funded by HUD grants for qualified residents. The City partnered with developers and apartment construction companies to revitalize parts of Victoria that are underserved. Our Planning Department also earned kudos for acquiring a large grant to help assist the Victoria homeless population with unprecedented shelter and resources.

For Fiscal Year 2009, \$419,627 of Community Development Block Grant was allocated to the Affordable Housing/Acquisition Program. The primary objective of this program is to provide decent and affordable housing through the rehabilitation of housing that is owned and occupied by low and moderate income residents in the Target Neighborhood with 10% of the funding reserved for residents outside the target neighborhood. This program is administered in-house through the Planning Department.

**Environmental Issues** - Many quality of life issues come before us each year. One of them is city beautification. FY 2008 included (1) continued funding for the "weedy lot & demolition" program (funded out of the General Fund), (2) partnering up with Keep Victoria Beautiful organization in promoting the beautification of Victoria, (3) new playground equipment for our parks and various park projects, (4) partnering-up with private industry in order to create a composting program, and (5) our "Air Victoria - Keep it Clean" program (funded out of the General Fund and Grants). In addition, the Fiscal Year 2009 Budget continues funding for an environmental education specialist to further promote City environmental programs at various schools and surrounding areas, as well as the above mentioned programs.

Approximately twenty unsafe structures in various sections of the City were demolished in the last fiscal year. Rick Madrid, Building Inspections and Permit Manager, hopes to demolish a similar number next year. Madrid says the buildings selected for demolition are those abandoned by owners who do not respond to letters from the City. After a review by the Buildings and Standards Commission, structures must be repaired, secured, or demolished.

## **Major Initiatives - (Continued)**

### **For Fiscal Year 2008 and Into the Future: - (Continued)**

**Environmental Issues (continued)** - During April, a long line of cars waited early in the day to drop off waste and recyclables at the 14<sup>th</sup> annual Household Hazardous Waste and Recyclables Collection Day. Sponsored by the City, Victoria Chamber of Commerce, and Golden Crescent Planning Commission, the event set a record for collections. More than 1,000 vehicles dropped off more than 24,000 pounds of hazardous waste and 57,000 pounds of hazardous paints and solvents. Other items dropped off for disposal and recycling included 1,134 gallons of oil; 2,000 oil filters; 1,100 automobile batteries; 373 gallons of antifreeze; and 2,700 tires.

The City also co-sponsored an E-Waste Day in Victoria, which attracted many local companies looking to recycle electronic waste including computers, monitors, keyboards, and printers. E-Waste collected included 4,066 lbs of broken electronic equipment; 10,228 pounds of computers; 9,000 pounds of printers; 1,087 pounds of keyboards; 4,490 pounds of main frames; 36 14-inch monitors; 257 15-inch monitors; 221 17-inch monitors; and 15 televisions.

**City's Water and Wastewater** - Victoria's diverse water supply is the result of hard work and wise planning by City leaders over many years. The City of Victoria has been primarily on a surface water system since 2001, with groundwater as a backup supply. Victoria has 20,000 acre feet of surface water permitted for withdrawal from the Guadalupe River, which provides the City's surface water with small lakes west of Victoria as a reserve. This reserve consists of 1,000 acre feet of permitted water stored in various reservoirs with additional 9,000 acre feet of reservoir water in the process of being permitted. (Note: these reservoirs are inundated gravel pits that were donated to the City by Fordyce, LTD several years ago.) While this supply should be adequate for most seasonal conditions over the next fifty years, the City allocated funds in prior years to acquire additional water rights to ensure adequate water supply through severe drought conditions and for economic development opportunities.

Our water supply was strengthened even more when the City recently purchased 4,676 acre feet of senior surface water rights and it is in the process of acquiring other 262.7 acre feet/year surface water rights. Victoria also sits atop the Gulf Coast Aquifer, an underground system of water that stretches along the Gulf Coast counties. Victoria maintains 18,000 acre feet of groundwater pumping capacity from this aquifer. In order to properly maintain the groundwater system, it is operated to supply about 10% of the system supply under normal operation.

As to the City's wastewater, the Texas Commission on Environmental Quality approved an upgrade to its Surface Water Treatment Plant (SWTP). With just a few minor modifications, the SWTP will be allowed to pump 25.2 million gallons per day (mgpd), a 36% increase from the 18.5 mgpd previously allowed. We will save millions of dollars from the recent work our Utilities Department did to get our Surface Water Treatment Plant capacity increased by 6.7 million gallons per day. In addition, the City is in the process of developing plans for the construction of a \$19.7 million 4.4 mgpd new wastewater treatment plant which will replace the Willow Street 2.2 mgpd wastewater treatment plant.

Water resources are ours to enjoy and protect so we may pass them on to the next generation. From the time that Victoria was settled in the early 1800's to the present day, Victoria has enjoyed abundant water resources for public consumption, recreation, and industrial development. Through responsible leadership and individual conservation, our water resources can remain stable and even grow.

**City's Landfill** - In addressing the solid waste operations, Victoria continues to maintain an adequate landfill capacity. It is estimated that the City's permitted landfill has approximately 25 years remaining life. During Fiscal Year 2007, the City purchased 200 acres of land, adjacent to our current permitted landfill; and, as a result of the purchase, the City will be able to increase its landfill's life to approximately 75 years - once the 200 acres are permitted.

**Pay Program** - The ability to recruit and retain qualified employees is always an important issue for our organization. Although we do not tie our pay programs directly to CPI indexes, it is an important factor we consider. CPI indexes for the last 12 months show consumer cost inflation averaging around 4.5% (as of June 08). The Fiscal Year 2009 Budget assumes a merit pay program of 0% - 5% with an average of 3.5% merit pay for all employees.



## **Major Initiatives - (Continued)**

### **For Fiscal Year 2008 and Into the Future: - (Continued)**

**Pay Program (continued)** - This is a reasonable program and is affordable in this budget. The Fiscal Year 2009 proposed pay program cost is approximately \$1,091,278, of which approximately \$853,091 is associated to the General Fund, \$127,515 to the Water/Wastewater Fund, \$57,711 to the Environmental Services Fund, and approximately \$52,961 is associated to other funds.

In addition to a pay program, City of Victoria annually reviews and adjusts some of its “pay grades” in order to be competitive with local industries and surrounding cities and counties.

**Routine Capital Expenditures** - Routine capital expenditures are those that are included in almost every budget, such as equipment, heavy equipment, vehicles, and office equipment, and will have no significant additional impact on the operating budget. In general, capital expenditures of \$100,000 or less are included in the annual operating budget. (Note: there are exceptions when capital expenditures may exceed \$100,000.) Fiscal Year 2008-2009 budgeted routine capital expenditures total \$8,651,345 of which \$4,649,575 are budgeted in General Fund, \$1,919,860 in Enterprise Funds, and \$2,081,910 in Internal Service Funds.

Budgeted Fiscal Year 2009 routine capital items include vehicle and equipment replacements for various departments, machinery, office equipment, data processing hardware and software, furniture and fixtures, minor building and structure improvements, 700 Main Center building improvements, park and playground repairs and improvements, waterline and sewer line improvements, water tower replacement, and replacements and street construction and maintenance. A recap of budgeted routine capital expenditures can be found in the Capital Outlay Expenditure section of the FY 2009 Budget Message.

**Maintaining Adequate Fund Balance** - The City of Victoria has a fiscal financial policy of maintaining a minimum General Fund fund balance of 18.5% of the proposed expenditures for a given fiscal year. This 18.5% represents funding equal to approximately 2.22 months of operating expenditures. Fiscal Year 2008-2009 projected General Fund fund balance is \$9,369,026 which is approximately \$1,309,866 above the minimum fund balance of \$8,059,160 (18.5% of total budgeted expenditures of \$43,563,025). For enterprise funds, the City's policy is to maintain a working capital balance equal to three months of operating expenses. Internal service funds are used to account for the financing of goods and services provided by one department to other departments of the City, or to other governments, on a cost-reimbursement basis. Internal Service Funds maintain a working capital balance of zero or an acceptable minimal working capital balance level.

**City Tax** - The City is on sound financial footing. Our growing economy and conservative financial management allowed the City Council to lower its tax rate in FY 2005 to 69 cents per \$100 of property value and keep the same rate for Fiscal Year 2006 and 2007. For Fiscal Year 2008, due to strong showing in taxable appraised values and continued economic growth, the City lowered its over-all property tax to 67.5 cents per \$100 of property value.

For Fiscal Year 2009, the City continues to encounter favorable economic trends. As a result, the City was able to lower its property tax to 65 cents. Over-all, the City has lowered its tax rate by 5 cents within the past five fiscal years.

The City remains committed to retain a low tax rate by continuing funding and supporting economic development projects and making sure that the City's appraised values are consistent and compatible to real estate market.

**Capital Improvement Program** - Improvements to Victoria infrastructure continue to be a major priority for the City. By using a combination of current budget resources, grants, Sales Tax Corporation funding, and bond indebtedness, the City has been able to implement a capital improvement process to allow for infrastructure improvements well into the future. In addition to the capital improvement projects currently underway, \$94 million in major improvement projects are planned for the next five fiscal years (2008-2012). The following pages will outline the City of Victoria's Capital Improvement Program, as of February 2009. (Note: City of Victoria Council will be meeting in March 2009 to update the City's Capital Improvement Program.)



## Major Initiatives - (Continued)

### Fiscal Year 2008 Capital Improvement Program:

Project Name	Project Description	Cost of Project	Funding Sources
1. Laurent Street Project Phase II - Engineering	The project involves reclaiming the existing base, rebuilding the street out of concrete, and re-striping the roadway from Airline Road to Sam Houston Drive. The project also involves the replacement of water and sanitary sewer lines, a new traffic signal, widening improvements to the intersection at Crestwood Drive and all associated traffic signage. The construction cost, \$14,606,265, will be funded in FY 2009 with Certificate of Obligation Bonds, Revenue Bonds, and Sales Tax Development Corporation (4B).	\$899,000	Certificate of Obligation Bonds
2. Fire Ladder Truck Replacement	Purchasing a new ladder truck which will be stationed at the new Fire Station No. 4.	\$950,000	General Fund
3. Downtown Utility Improvement Project - Phase II, Project No. 8 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Water Street from Moody Street to Navarro Street, in Main Street from Water Street to South Street, and in Second Street from Glass Street to Main Street.	\$1,327,917	Sales Tax Dev. Corp. (4B) and TWDB Bonds
4. Downtown Utility Improvement Project - Phase I, Project No. 6 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in South Deleon from River Street to Third Street.	\$1,085,083	Sales Tax Dev. Corp. (4B) and TWDB Bonds
5. Downtown Utility Improvement Project - Phase I, Project No. 1 and 2 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Glass Street, and Main Street from Commercial Street to Juan Linn Street.	\$422,000	Water/Wastewater Fund and Revenue Bonds
6. Downtown Utility Improvement Project - Phase I, Project No. 1 and 2 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Glass Street, and Main Street from Commercial Street to Juan Linn Street.	\$3,759,180	Revenue Bonds
7. Downtown Utility Improvement Project - Phase I, Project No. 3 and 4 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Juan Linn, William Streets, and in Constitution and Forrest Streets. The construction cost, \$2,560,733, will be funded in FY 2009 with Revenue Bonds.	\$579,110	Sales Tax Dev. Corp. (4B)

**Major Initiatives - (Continued)**

**Fiscal Year 2008 Capital Improvement Program:**

<b>Project Name</b>	<b>Project Description</b>	<b>Cost of Project</b>	<b>Funding Sources</b>
8. Skate Park Project	This project involves the construction of a skate park for the Citizens of Victoria.	\$274,000	General Fund
9. East Loop 463 Corridor Annexation Project	This proposed annexation consists of land fronting on the northeast side of Loop 463 from near Mockingbird Lane to just south of Ben Jordan Street. Water and sanitary sewer lines are needed to service this area.	\$230,000	Sales Tax Dev. Corp. (4B)
10. Sam Houston Alternative Street Project - Pre Engineering Cost	This project involves reclaiming the existing base, applying a double chip seal, laying a 2" hot-mix asphalt course and re-striping of the roadway from Laurent Street to Business 59. The plan also involves the replacement of water and sanitary sewer lines located under the existing pavement section, the replacement of two (2) traffic signals and replacing all associated traffic signage. The construction cost, \$19,115,328, will be funded in FY 2009 with Revenue Bonds, Certificate of Obligation Bonds, and Sales Tax Development Corporation (4B).	\$200,000	Certificate of Obligation Bonds
11. West High School (New School) Utility Extension Project	This new high school project would provide extension of water lines across Zac Lentz Parkway and Wagner property to site from southwest and then onward around site to Hwy 87. The City will participate in the school project and bear the cost of oversizing.	\$987,300	Sales Tax Dev. Corp. (4B)
12. West High School (New School) Traffic Signal US 87 Project	The new high school project would provide traffic signal at Tropical Drive and Main Street (Hwy 87) intersection. The City will participate in the school project by funding half of the construction cost.	\$200,000	Sales Tax Dev. Corp. (4B) and Certificate of Obligation Bonds
13. US 87 Annexation, Utility Extensions North of West High School Campus Project	This project involves installing 24" sanitary sewer line and 16" water line north of West High School.	\$1,149,800	Sales Tax Dev. Corp. (4B)

**Major Initiatives - (Continued)**

**Fiscal Year 2008 Capital Improvement Program: - (Continued)**

<b>Project Name</b>	<b>Project Description</b>	<b>Cost of Project</b>	<b>Funding Sources</b>
14. Mallette Drive Street Improvement Project.	The project involves reclaiming the existing base, applying a double chip seal, placing a 2" hot-mix asphalt surface course and widening the existing street. The project also involves the replacement of water and sanitary sewer lines, drainage work, and sidewalks. This project will accommodate VISD new middle school.	\$895,185	Certificate of Obligation Bonds and Revenue Bonds
15. Lone Tree Road Street Project	The project involves reclaiming the existing base, applying a double chip seal, placing a 2" hot-mix asphalt surface course. This project will accommodate VISD new middle school.	\$85,000	Certificate of Obligation Bonds
16. Anthony Road Street Project	The project involves reclaiming the existing base, applying a double chip seal, placing a 2" hot-mix asphalt surface course. This project will accommodate VISD new middle school.	\$138,000	Certificate of Obligation Bonds
17. East Campus Box Culvert Extension	Involves extending box culvert under proposed driveway near Mockingbird Lane so that proposed driveway will line up with Carriage Drive.	\$100,000	Certificate of Obligation Bonds
18. Land for Fire Station No. 6	This project involves the acquisition of land (2 acres) in an area of rapid growth (north of Victoria). The land will be used in the future for the new Fire Station No. 6.	\$200,000	General Fund
19. Sam Houston Street Alternative Project - Survey	This project involves reclaiming the existing base, applying a double chip seal, laying a 2" hot-mix asphalt course and re-striping of the roadway from Laurent Street to Business 59. The plan also involves the replacement of water and sanitary sewer lines located under the existing pavement section, the replacement of two (2) traffic signals and replacing all associated traffic signage. The construction cost, \$19,115,328, will be funded in FY 2009 with Revenue Bonds, Certificate of Obligation Bonds, and Sales Tax Development Corporation (4B).	\$611,400	Certificate of Obligation Bonds
<b>Total Fiscal Year 2008 CIP Cost:</b>		<b>\$14,092,975</b>	

## Major Initiatives - (Continued)

### Fiscal Year 2009 Capital Improvement Program:

Project Name	Project Description	Cost of Project	Funding Sources
20. Laurent Street Project Phase II - Construction Cost	The project involves reclaiming the existing base, rebuilding the street out of concrete, and re-striping the roadway from Airline Road to Sam Houston Drive. The project also involves the replacement of water and sanitary sewer lines, a new traffic signal, widening improvements to the intersection at Crestwood Drive and all associated traffic signage.	\$14,606,265	a. Certificate of Obligation Bonds b. Revenue Bonds c. Sales Tax Dev. Corp. (4B)
21. Sam Houston Street Alternative Project - Engineering & Right of Way	This project involves reclaiming the existing base, applying a double chip seal, laying a 2" hot-mix asphalt course and re-striping of the roadway from Laurent Street to Business 59. The plan also involves the replacement of water and sanitary sewer lines located under the existing pavement section, the replacement of two (2) traffic signals and replacing all associated traffic signage. The construction cost, \$19,115,328, will be funded in FY 2009 with Revenue Bonds, Certificate of Obligation Bonds, and Sales Tax Development Corporation (4B).	\$2,751,730	Certificate of Obligation Bonds
22. Red River Street Park Entrance Project	Construction of Red River entrance to Riverside Park and associated utilities, drainage, sidewalks, and related infrastructure.	\$1,851,157	Sales Tax Dev. Corp. (4B)
23. Reimburse General Fund for Fire Station No. 4	During Fiscal Year 2007, City Council passed a reimbursement resolution to reimburse General Fund for the construction cost of the new Fire Station No. 4. As part of our effort to plan for the future, the City is moving forward with the construction of a new Fire Station No. 4. With an adjustment in zones for the existing stations, this new fire station will help shorten our emergency response times in north Victoria. This fire station will be built on Salem Road and will be ready for staffing in the last quarter of 2008.	\$2,500,000	Certificate of Obligation Bonds

**Major Initiatives - (Continued)**

**Fiscal Year 2009 Capital Improvement Program: - (Continued)**

<b>Project Name</b>	<b>Project Description</b>	<b>Cost of Project</b>	<b>Funding Sources</b>
24. Fire Station No. 2 - Relocation	After the completion of the new Fire Station No. 4, the City will move forward in relocating Fire Station No. 2 in order to comply with the modification of the fire station zoning plan. This relocation will shorten the emergency response time within the central part of Victoria.	\$2,713,000	a. Certificate of Obligation Bonds b. General Fund
25. Downtown Utilities Improvement Project - Phase I, Project No. 3 and 4 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Juan Linn and William Streets, and in Constitution and Forrest Streets.	\$2,560,733	Revenue Bonds
26. Downtown Utilities Improvement Project - Phase I, Project No. 5 and 6 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Deleon and Commercial Streets, and in Liberty and Juan Linn Streets. The construction cost, \$3,009,230, will be funded in FY 2010 with Revenue Bonds.	\$451,385	Sales Tax Dev. Corp. (4B)
27. Traffic Signal (Navarro @ Crestwood Project)	Engineering and construction cost of traffic control facilities for Navarro and Crestwood Streets & associated utilities, drainage, sidewalks, and other related infrastructure.	\$250,000	Sales Tax Dev. Corp. (4B)
28. Land Acquisition for Wastewater Treatment Plant Project	Acquiring land for future construction of a Wastewater Treatment Plant in FY 2012.	\$200,000	Water/Wastewater Fund
29. Lone Tree Hike/Bike Trail Extension	A 2,200 LF extension of the Lone Tree Hike/Bike Trail. The trail meanders along the Lone Tree Creek Corridor and adjacent to the East High School project from John Stockbauer to Mockingbird.	\$382,000	General Fund and Sales Tax Dev. Corp. (4B)
30. Downtown Sidewalk and Traffic Control Project - Engineering	Engineering for a sidewalk and traffic control replacement project on Main Street, from Commercial Street to Juan Linn Street and along portions of Bridge Street, Forrest Street and Constitution Street.	\$350,000	Sales Tax Dev. Corp. (4B)
<b>Total Fiscal Year 2009 CIP Cost:</b>		<b>\$28,616,270</b>	

## Major Initiatives - (Continued)

### Fiscal Year 2010 Capital Improvement Program:

Project Name	Project Description	Cost of Project	Funding Sources
31. Downtown Utilities Improvement Project - Phase I, Project No. 5 and 6 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in DeLeon and Commercial Streets, and in Liberty and Juan Linn Streets.	\$3,009,230	Revenue Bonds
32. Wastewater Treatment Plant Permit Project	Acquiring permits from TCEQ for construction of a Wastewater Treatment Plant in FY 2012.	\$50,000	Water/Wastewater Fund
33. Downtown Utilities Improvement Project - Phase II, Project No. 1 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Church and Glass Streets. The construction cost, \$1,009,349, will be funded in FY 2010 with Revenue Bonds.	\$151,402	Sales Tax Dev. Corp. (4B)
34. Downtown Utilities Improvement Project - Phase II, Project No. 2 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Convent, Wheeler, and DeLeon Streets. The construction cost, \$1,650,965, will be funded in FY 2010 with Revenue Bonds.	\$247,645	Sales Tax Dev. Corp. (4B)
35. Downtown Utilities Improvement Project - Phase II, Project No. 3 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Main, Bridge and River Streets. The construction cost, \$1,788,215, will be funded in FY 2011 by the Sales Tax Development Corporation (4B).	\$268,232	Sales Tax Dev. Corp. (4B)
36. Downtown Utilities Improvement Project - Phase II, Project No. 4 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Liberty and Murray Streets. The construction cost, \$1,229,262, will be funded in FY 2011 by the Sales Tax Development Corporation (4B).	\$184,389	Sales Tax Dev. Corp. (4B)
37. Downtown Utilities Improvement Project - Phase II, Project No. 1 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Church and Glass Streets.	\$1,009,349	Revenue Bonds

**Major Initiatives - (Continued)**

**Fiscal Year 2010 Capital Improvement Program: - (Continued)**

<b>Project Name</b>	<b>Project Description</b>	<b>Cost of Project</b>	<b>Funding Sources</b>
38. Downtown Utilities Improvement Project - Phase II, Project No. 2 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Convent, Wheeler, and DeLeon Streets.	\$1,650,965	Revenue Bonds
39. Reimbursement for Utility Line Tuscany Subdivision Project	Reimbursing contractor for over-sizing utility lines for future development.	\$223,000	Water/Wastewater Fund
40. Lone Tree Community Park Project	A 110 acre community park on the east side of Victoria - located off Airline Road. Amenities include: splashpad, pavilion, restrooms, play-equipment, practice football field, practice soccer, and ball fields.	\$1,000,000	General Fund and Texas Parks & Wildlife Grant
<b>Total Fiscal Year 2010 CIP Cost:</b>		<b>\$7,794,212</b>	

**Fiscal Year 2011 Capital Improvement Program:**

<b>Project Name</b>	<b>Project Description</b>	<b>Cost of Project</b>	<b>Funding Sources</b>
41. Downtown Utilities Improvement Project - Phase II, Project No. 3 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Main, Bridge and River Streets.	\$1,788,215	Sales Tax Dev. Corp. (4B)
42. Downtown Utilities Improvement Project - Phase II, Project No. 4 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Liberty and Murray Streets.	\$1,229,262	Sales Tax Dev. Corp. (4B)
43. Downtown Utilities Improvement Project - Phase II, Project No. 5 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Bridge and South streets. The construction cost, \$756,918, will be funded in FY 2012 by the Sales Tax Development Corporation (4B).	\$113,538	Water/Wastewater Fund
44. Downtown Utilities Improvement Project - Phase II, Project No. 7 - Engineering Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Third, Second, and DeLeon Streets. The construction cost, \$1,074,819, will be funded in FY 2012 by the Sales Tax Development Corporation (4B).	\$161,223	Water/Wastewater Fund
45. Sam Houston Alternative Street Project - Construction Cost	This project involves reclaiming the existing base, applying a double chip seal, laying a 2" hot-mix asphalt course and re-striping of the roadway from Laurent Street to Business 59. The plan also involves the replacement of water and sanitary sewer lines located under the existing pavement section, the replacement of two (2) traffic signals and replacing all associated traffic signage.	\$19,115,328	a. Certificate of Obligation Bonds b. Revenue Bonds c. Sales Tax Dev. Corp. (4B) d. Water/Wastewater Fund
<b>Total Fiscal Year 2011 CIP Cost:</b>		<b>\$22,407,566</b>	

## Major Initiatives - (Continued)

### Fiscal Year 2012 Capital Improvement Program:

Project Name	Project Description	Cost of Project	Funding Sources
46. Downtown Utilities Improvement Project - Phase II, Project No. 5 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Bridge and South Streets.	\$756,918	Sales Tax Dev. Corp. (4B)
47. Downtown Utilities Improvement Project - Phase II, Project No. 7 - Construction Cost	The project involves replacing or rehabilitating the water and sanitary sewer lines in Third, Second, and DeLeon Streets.	\$1,074,819	Sales Tax Dev. Corp. (4B)
48. Wastewater Treatment Plant Project - Engineering Cost	Construction of a new 4.4 MGD wastewater treatment plant which will replace the Willow Street 2.2 MGD wastewater treatment plant	\$2,572,100	Revenue Bonds
49. Wastewater Treatment Plant Project - Construction Cost	Construction of a new 4.4 MGD wastewater treatment plant which will replace the Willow Street 2.2 MGD wastewater treatment plant	\$17,147,900	Revenue Bonds
<b>Total Fiscal Year 2012 CIP Cost:</b>		<b>\$21,551,737</b>	
<b>Total Fiscal Year '08, '09, '10, '11, and '12 CIP Cost:</b>		<b>\$94,462,760</b>	

The Capital Improvement Program (CIP) is an ongoing process. The program will be updated every year, at which time the first year (that which has already been budgeted) drops off. The remaining years are then reevaluated and updated to reflect any changes in cost estimates or priorities, and a new fifth year is added.

### Financial Information

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

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

**Budgetary Controls** - The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budgets approved by the Mayor and Council. Activities of the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Funds, Enterprise Funds, and Internal Service Funds are included in the annual budgets. The only funds with appropriated budgets are the General Fund and the Debt Service Fund. The level of budgetary control includes expenditures that cannot legally exceed the appropriated amount and is established by department within an individual governmental fund and proprietary fund.

Budgetary control is maintained at the subfunction level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of subfunction balances are not released until additional appropriations are made available. Open encumbrances are reported as reservations of fund balance at September 30, 2008.

According to the City Charter, "No funds of the City of Victoria shall be expended, nor shall any obligation for the expenditure of money be incurred, except in pursuance of the annual appropriation ordinance . . ."



## Cash Administration

The City currently has a depository contract with Wells Fargo Bank. This contract is in effect until April 30, 2010. Under this agreement, all excess funds above predetermined balances are swept out at the end of each business day. These funds are held in securities chosen by the City, and interest is earned based on the market value of the instrument, less a service rate. Before the open of business the following day, the funds are swept back and interest earned is deposited into a separate account. The interest earned daily is reallocated at month-end based on each bank account's daily sweep balance.

The City reserves the right to invest outside the depository if it is to the City's advantage. As long as the City can earn a better yield outside the depository, it exercises that right, leaving about 10% of its portfolio in the depository for operating purposes. The City's investment policy allows it to invest in any legal investment. The followed practice, however, has been to consider the following instruments as appropriate:

1. Direct obligations of the U.S. Treasury
2. Selected securities of U.S. Government agencies
3. FDIC insured bank certificates of deposit
4. Repurchase agreements
5. Pools
6. Commercial Paper

Investments are competitively bid by phone quotes and they are limited in maturity to less than two years per the City's investment policy.

## Risk Management

For fiscal year 2007-08, the City had most of its liability risks covered by insurance. These coverages are summarized below:

General Liability, including EMS Errors & Omissions	\$2,000,000 Occurrence \$4,000,000 Aggregate \$1,000 Deductible per occurrence
Police Professional Liability	\$1,000,000 Occurrence \$3,000,000 Aggregate \$5,000 Deductible per occurrence
Public Officials' Liability	\$5,000,000 Occurrence \$10,000,000 Aggregate \$25,000 Deductible per claim
Fleet Liability	\$2,000,000 Occurrence \$1,000,000 Uninsured/Underinsured motorist \$25,000 Medical Payment per person \$0 Deductible on liability \$500 deductible each vehicle on auto physical damage \$10,000 deductible each occurrence on auto physical damage \$25,000 deductible catastrophe
Contractors' Equipment	\$2,906,756 (per scheduled equipment) \$250,000 newly purchased equipment \$5,000 rental cost per item \$2,500 Deductible per occurrence

### **Risk Management - (Continued)**

Comprehensive Property Damage	\$96,200,283 Combined Building and Contents \$500,000 Blanket Extra Expense \$96,200,283 Earth Movement \$1,000,000 Property In Transit \$1,000,000 Newly Acq/Constr. \$100,000 Property of Others \$10,000 Pollutant Cleanup \$5,000 Blanket \$25,000 Deductible per occurrence on flood and earthquake
Electronic Data Processing Equipment	\$2,692,969 per scheduled equipment (Replacement Cost) \$250 on Computer Equipment \$250 on Flood & Earthquake
Employee Benefits Liability	Included in Public Officials & Employee Liability \$5,000 Deductible per occurrence
Radio Towers	\$7,338,511 per scheduled equipment \$10,000 Pollutant Cleanup \$2,500 Deductible
Crime Coverage	\$1,000,000 per agreement \$2,500 Deductible per agreement
Boiler and Machinery	\$50,597,761 (per scheduled equipment) \$1,000,000 Newly Acq. Loc. \$500,000 Extra Expense \$10,000 Pollutant Removal \$1,000 Deductible per Occurrence \$5,000 Deductible Extra Expense

For several years, the City has been managing a self-insured health plan for employees, retirees, and dependents. Effective January 1, 1998, the City changed administrators to Boon Chapman. This firm provides intensive review of claims before they are paid, including managed care, utilization review, discharge review, precertification review, and hospital audits.

Effective October 1, 1989, the City made the decision to self-insure for workers' compensation liability. The plan carries reinsurance at a \$350,000 per incident level.

### **Independent Audit**

This report is prepared in compliance with the legal requirements imposed by Article V, Section 3(6) of the Charter of the City of Victoria, Texas, as amended. In addition to fulfilling this legal requirement, this report serves to fully disclose financial data and other statistical data on an annual basis to management, the elected Council and Mayor, the public, investors, and other interested persons. The Victoria firm of Harrison, Waldrop & Uherek, L.L.P., was retained by the City to satisfy this requirement.

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Victoria for its comprehensive annual financial report for the fiscal year ended September 30, 2007. This was the twenty-fifth consecutive year that the City of Victoria has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

The preparation of the comprehensive annual financial report is a joint effort of the City's Finance Department and the City's independent auditor, Harrison, Waldrop & Uherek, L.L.P. The successful and timely preparation of this report depends on the cooperation of these groups and upon the hard work of the entire staff of the Finance Department. Appreciation must also be expressed to the City's Mayor and Council for their continuing support.

Gilbert P. Reyna, Jr., CPA  
Director of Finance

Charles E. Windwehen  
City Manager

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Victoria  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



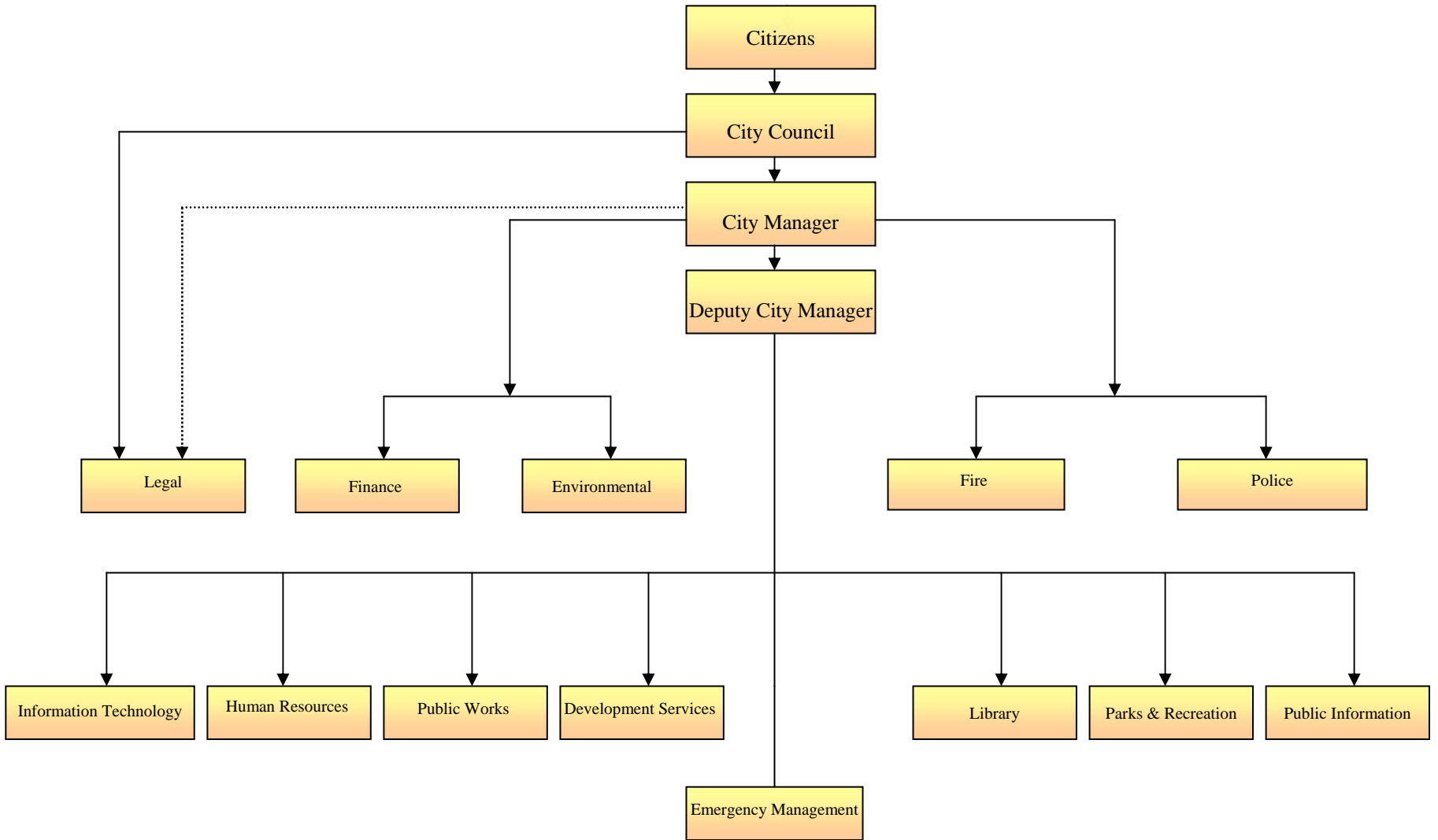
President

Executive Director

City of Victoria, Texas

Organization Chart

October 2008



## PRINCIPAL CITY OFFICIALS

### ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Years of Service</u>	<u>Term Expires</u>
Will Armstrong	Mayor (5 years prior service 1973-1979)	4	May, 2010
Lewis Nietsch	Mayor Pro-Tem, District 2	9	May, 2009
Philip Guittard	Council Member, District 1	10	May, 2009
David Hagan	Council Member, District 4	2	May, 2009
Paul Polasek	Council Member, Superdistrict 3	2	May, 2009
Jim Wyatt	Council Member, Superdistrict 5 (7 years prior service 1988-1995)	7	May, 2010
Tom Halepaska	Council Member, Superdistrict 6	4	May, 2010

### ADMINISTRATIVE OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Years of Service</u>	
		<u>With City</u>	<u>Current Position</u>
Charles E. Windwehen	City Manager	33	2
Charmelle Garrett	Deputy City Manager	18	2
Gilbert P. Reyna, Jr.	Director of Finance	13	12
Miles K. Risley	City Attorney	12	1
Danette Respondek	Director of Human Resources	4	2
Rick Henrichs	Director of Information Technology	28	10
John Kaminski	Director of Development Services	19	10
Bruce Ure	Police Chief	1	1
Vance L. Riley	Fire Chief	13	13
Doug Cochran	Director of Parks and Recreation	19	10
James Stewart	Director of Public Library	30	30
Lynn Short	Director of Public Works	16	10
Jerry G. James	Director of Environmental Services	6	5



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## **INDEPENDENT AUDITOR'S REPORT**

The Honorable Will Armstrong, Mayor  
and Members of the City Council  
City of Victoria, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Victoria, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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. The financial statements of the Sales Tax Development Corporation and the Victoria Recreation Association, Inc. were not audited in accordance with *Government Auditing Standards*. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2008, 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 63 through 64, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2009, on our consideration of the City's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

The Honorable Will Armstrong, Mayor  
and Members of the City Council

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual major and nonmajor fund financial statements and schedules, statistical data, and schedule of expenditures of federal and state awards (as required by the U.S. Office of Management and Budget Circular A-133, *Auditing of States, Local Governments, and Non-Profit Organizations*) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual major and nonmajor fund financial statements and schedules and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Harrison Waldrop + Uherich, LLP*

March 2, 2009



The discussion and analysis of the City of Victoria's (the "City") financial performance provides an overall review of the City's financial activities for the year ended September 30, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

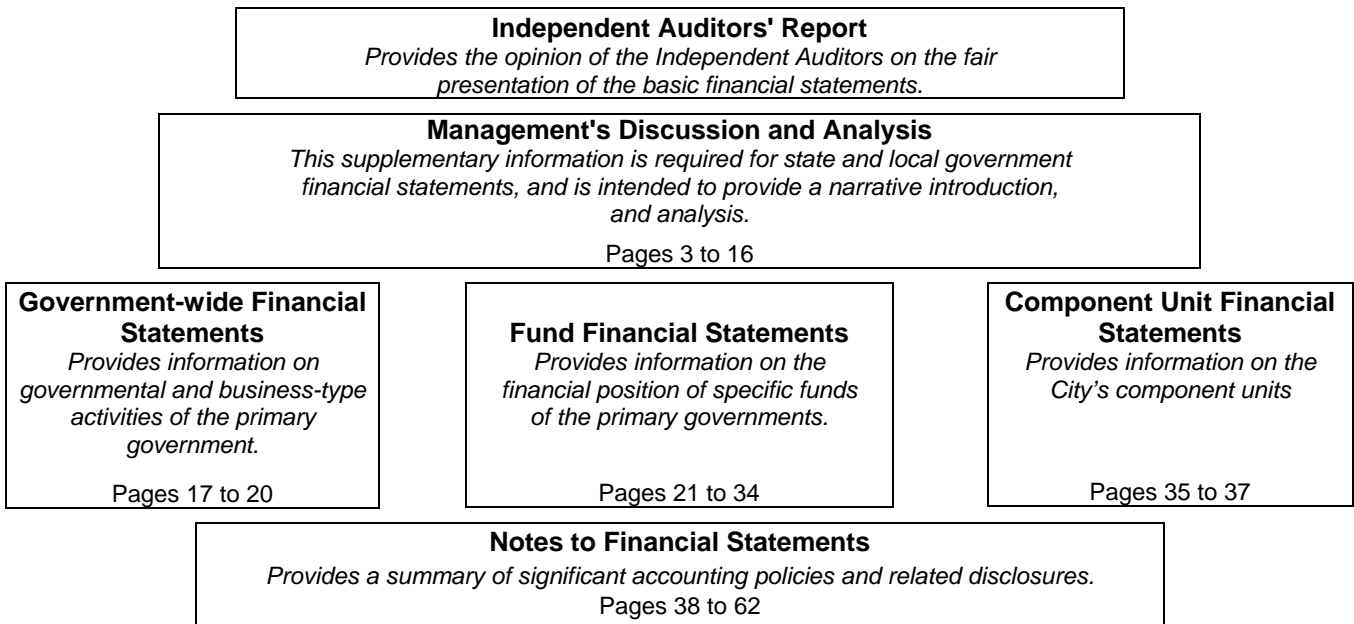
**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2008, by \$167,322,505. Of this amount, \$45,665,566 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors (see page 8 for further detail).
- At September 30, 2008, the City's governmental funds reported combined ending fund balances of \$38,989,940, a decrease of \$3,404,823 (8.03%) in comparison with prior year. The amount available for governmental discretion (unreserved fund balance) is \$24,750,140 (see page 10 for further detail).
- At September 30, 2008, unreserved fund balance for the General Fund was \$11,055,775 or 27.30% of total General Fund expenditures.
- The total cost of all City activities was \$69,509,986 for the fiscal year. Net cost of all activities was \$26,475,574.
- During the year, the City's general revenues exceeded net expenses of the primary government by \$15,173,624. This represents a 9.97% increase in net assets from the previous fiscal year as a result from operations.
- The City's outstanding long-term debt had a net increase of \$3,656,669 mainly due to the issuance of \$9,995,000 in Certificates of Obligation, Series 2007 for constructing improvements to various City infrastructures and for the payment of related contractual obligations for professional services.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

**Organization and Flow of Financial Section Information**



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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Government-wide Financial Statements**

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

#### ***Statement of Net Assets***

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 net assets can be found on pages 17 through 18.

#### ***Statement of Activities***

The statement of activities presents information showing how the government's net assets changed during fiscal year 2008. All changes in 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 and earned, but unused vacation leave). The statement of activities can be found on pages 19 through 20.

Both of these 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, streets and highways, culture and recreation, and interest on long-term debt. The business-type activities of the City include water/wastewater utilities, environmental service operations, and other (700 Main Center, Community Center, and Education & Government Channel). The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component units of Sales Tax Development Corporation and Victoria Recreation Association, Inc. These component units are not included as part of the primary government.

### **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 available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 financial decisions. Both the governmental fund balance sheet (pages 21 and 22) and the governmental fund statement of revenues, expenditures, and changes in fund balances (pages 24 and 25) provide reconciliations to facilitate this comparison between governmental funds and governmental activities (page 23 and page 26).

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Fund Financial Statements - (Continued)**

#### ***Governmental Funds - (Continued)***

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, 2000 and 2001 Street and Drainage Use Bonds Fund, and Capital Improvement Program Fund, 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 non-major governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts annual appropriated budgets for its General Fund, Debt Service Fund, and Capital Project Funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

#### ***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise 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 the fiscal activities relating to water/wastewater utilities, environmental service operations, and other enterprise activities (700 Main Center, Community Center, and Education & Government Channel). 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 vehicle and equipment services, information technology services, communication services, purchasing services, safety management services, workers compensation services, print shop services, and health plan services. Because these services predominantly benefit governmental rather than business-type functions, they have 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/wastewater utilities and environmental service operations, which are both considered to be major funds for the City, and other (700 Main Center, Community Center, and Education & Government Channel).

The basic proprietary fund financial statements follow the governmental fund financial statements (pages 27 through 32).

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs/operations. The accounting used for fiduciary funds is similar to proprietary.

The basic fiduciary fund financial statements can be found on pages 33 through 34 of this report.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38 through 62 of this report.

## OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

### Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund. Required supplementary information can be found on pages 63 through 64 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 65 through 164 of this report.

### 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, assets exceeded liabilities by \$167,322,505 at the close of the fiscal year ended September 30, 2008.

At the end of fiscal year 2008, 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.

#### City of Victoria, Texas

#### Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 57,552,723	\$ 55,313,131	\$ 25,115,140	\$ 25,090,651	\$ 82,667,863	\$ 80,403,782
Capital assets (net)	<u>140,457,456</u>	<u>121,588,586</u>	<u>98,519,030</u>	<u>96,874,125</u>	<u>238,976,486</u>	<u>218,462,711</u>
Total assets	<u>198,010,179</u>	<u>176,901,717</u>	<u>123,634,170</u>	<u>121,964,776</u>	<u>321,644,349</u>	<u>298,866,493</u>
Current and other liabilities	11,971,454	8,143,407	5,782,076	5,225,567	17,753,530	13,368,974
Noncurrent liabilities	<u>69,230,974</u>	<u>62,668,463</u>	<u>67,337,340</u>	<u>70,680,175</u>	<u>136,568,314</u>	<u>133,348,638</u>
Total liabilities	<u>81,202,428</u>	<u>70,811,870</u>	<u>73,119,416</u>	<u>75,905,742</u>	<u>154,321,844</u>	<u>146,717,612</u>
Net assets:						
Investment in capital assets, net of related debt	82,236,177	81,674,543	37,957,306	33,129,491	120,193,483	114,804,034
Restricted	1,463,456	1,696,525	-	-	1,463,456	1,696,525
Unrestricted	<u>33,108,118</u>	<u>22,718,779</u>	<u>12,557,448</u>	<u>12,929,543</u>	<u>45,665,566</u>	<u>35,648,322</u>
Total net assets	<u>\$ 116,807,751</u>	<u>\$ 106,089,847</u>	<u>\$ 50,514,754</u>	<u>\$ 46,059,034</u>	<u>\$ 167,322,505</u>	<u>\$ 152,148,881</u>

The largest portion of the City's fiscal year 2008 net assets (71.83% or \$120,193,483) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

The City has restricted net assets of \$801,401 for debt service and \$662,055 for special programs. The remaining balance of \$45,665,566 may be used to meet the government's ongoing obligations to citizens and creditors; over all, the City's net assets increased by \$15,173,624, which consists of an increase of \$10,717,904 in governmental net assets and an increase of \$4,455,720 in business-type net assets.

**City of Victoria, Texas**  
**Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 7,246,205	\$ 6,256,441	\$ 28,204,434	\$23,763,471	\$35,450,639	\$30,019,912
Operating grants and contributions	1,782,897	1,483,014	-	-	1,782,897	1,483,014
Capital grants and contributions	4,000,000	205,606	1,800,876	774,028	5,800,876	979,634
General revenues:						
Property taxes	18,731,119	17,365,758	-	-	18,731,119	17,365,758
Other taxes	19,529,743	19,043,843	-	-	19,529,743	19,043,843
Other	<u>2,639,733</u>	<u>3,167,812</u>	<u>748,603</u>	<u>754,867</u>	<u>3,388,336</u>	<u>3,922,679</u>
<b>Total revenues</b>	<u>53,929,697</u>	<u>47,522,474</u>	<u>30,753,913</u>	<u>25,292,366</u>	<u>84,683,610</u>	<u>72,814,840</u>
<b>EXPENSES</b>						
General government	6,931,856	6,309,381	-	-	6,931,856	6,309,381
Public safety	21,735,079	21,011,764	-	-	21,735,079	21,011,764
Highways and streets	7,823,283	6,536,201	-	-	7,823,283	6,536,201
Culture and recreation	5,103,708	4,567,261	-	-	5,103,708	4,567,261
Interest on long-term debt	3,292,118	3,045,176	-	-	3,292,118	3,045,176
Water/wastewater	-	-	18,715,248	17,796,972	18,715,248	17,796,972
Environmental services	-	-	5,024,014	3,910,749	5,024,014	3,910,749
Other	<u>-</u>	<u>-</u>	<u>884,680</u>	<u>644,320</u>	<u>884,680</u>	<u>644,320</u>
<b>Total expenses</b>	<u>44,886,044</u>	<u>41,469,783</u>	<u>24,623,942</u>	<u>22,352,041</u>	<u>69,509,986</u>	<u>63,821,824</u>
Change in net assets before transfers	9,043,653	6,052,691	6,129,971	2,940,325	15,173,624	8,993,016
Transfers	<u>1,674,251</u>	<u>6,290,847</u>	<u>( 1,674,251)</u>	<u>( 6,290,847)</u>	<u>-</u>	<u>-</u>
Change in net assets	10,717,904	12,343,538	4,455,720	( 3,350,322)	15,173,624	8,993,016
<b>Net assets - 10/01/07</b>	<u>106,089,847</u>	<u>93,746,309</u>	<u>46,059,034</u>	<u>49,409,556</u>	<u>152,148,881</u>	<u>143,155,865</u>
<b>Net assets - 9/30/08</b>	<u>\$116,807,751</u>	<u>\$ 106,089,847</u>	<u>\$ 50,514,754</u>	<u>\$46,059,034</u>	<u>\$167,322,505</u>	<u>\$152,148,881</u>

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

The over-all increase in net assets of \$15,173,624 is mainly due to the following reasons:

- City's FY 2008 taxable appraised values were 10.68% higher than last year's, due to re-appraisal of property and City's expansion in economic development growth.
- Sales tax revenue was 4% higher than last year's, due to continued retail growth.
- Franchise tax revenue came in lower because of restructuring the City landfill rates in order to become more marketable and competitive.
- New Fire/EMS Inter-local Agreement with the County of Victoria resulted in a "one-time" increase in governmental charges for services of \$699,359.
- Ambulance revenue, charges for services, came in higher than last fiscal year's.
- Operating grant revenues came in higher than last year because of a new grant the City received in FY 2008 called Border Star Grant.
- Capital grants and contributions revenues came in higher than last year because of an increase in funding from the Sales Tax Development Corporation (4B).
- Other general revenues came in lower than last year because of lower interest earning income.
- Expenses for the governmental activities increased approximately 8% over last fiscal year due to an increase in operating expenses.
- During FY 2007 and 2008, the City implemented water and wastewater rate increases.
- During FY 2008, the City experienced a drier summer than last year, and as a result, the charges for services for water and wastewater came in higher than expected.
- Water/wastewater expense was increased because of replacing Water Tower #3.
- The Environmental Services Fund (a business-type activity) received a "one-time" royalty payment of \$1.9 million from the new landfill operator (Republic, Inc.). In addition, Allied/BFI Inc., prior landfill operator, made a "one-time" closure and post-closure payment of \$1.4 million.
- The increase in Environmental Services expenses was due to acquiring new fully-automated garbage trucks and 20,000 carts in order to implement a new refuse collection program - "once a week" garbage pickup with fully automatic garbage trucks. The City is anticipating cost savings in FY 2009 and 2010.

**Governmental Activities**

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**City of Victoria, Texas**

**2008 Expenses and Program Revenues - Governmental Activities**

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
General government	\$ 6,931,856	15.44%	\$ 3,088,569	23.70%	(\$ 3,843,287)
Public safety	21,735,079	48.42%	5,716,568	43.88%	( 16,018,511)
Highways and streets	7,823,283	17.43%	4,000,000	30.70%	( 3,823,283)
Culture and recreation	5,103,708	11.37%	223,965	1.72%	( 4,879,743)
Interest on long-term debt	<u>3,292,118</u>	7.34%	-	0.00%	<u>( 3,292,118)</u>
	<u>\$44,886,044</u>		<u>\$13,029,102</u>		<u>(\$ 31,856,942)</u>

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)****Governmental Activities - (Continued)**

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<b>City of Victoria, Texas</b>				
<b>Revenue by Source - Governmental Activities</b>				
<b>Description</b>	<b>Revenues</b>		<b>Revenues</b>	
	<b>2008</b>	<b>% of Total</b>	<b>2007</b>	<b>% of Total</b>
Charges for services	\$ 7,246,205	13.03%	\$ 6,256,441	11.63%
Operating grants and contributions	1,782,897	3.21%	1,483,014	2.76%
Capital grants and contributions	4,000,000	7.19%	205,606	0.38%
Property taxes	18,731,119	33.69%	17,365,758	32.27%
Sales taxes	13,545,220	24.36%	13,028,689	24.21%
Franchise taxes	4,678,027	8.41%	4,887,453	9.08%
Other taxes	1,306,496	2.35%	1,127,701	2.10%
Unrestricted investment earnings	2,062,275	3.71%	2,333,774	4.34%
Gain (loss) on disposition of capital assets	-	0.00%	(153,537)	(0.29%)
Miscellaneous	577,458	1.04%	987,575	1.83%
Transfers	<u>1,674,251</u>	3.01%	<u>6,290,847</u>	11.69%
<b>Total</b>	<u>\$ 55,603,948</u>		<u>\$ 53,813,321</u>	

**Business-type Activities**

Fiscal year 2008 business-type activities increased the City's net assets by \$4,455,720. This increase is mainly due to the following reasons:

- In FY 2008, water and wastewater rates were increased.
- In FY 2007 wastewater rate increases were implemented in April 2007. The full impact of this increase was seen in FY 2008.
- "One-time" royalty payment of \$1.9 million from the new City landfill operator.
- "One-time" closure and post-closure payment of \$1.4 million from the City's old landfill operator.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**Business-type Activities - (Continued)**

**City of Victoria, Texas  
2008 Expenses and Program Revenues - Business-type Activities**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Program Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
Water/wastewater	\$18,715,248	76.01%	\$22,798,287	75.98%	\$4,083,039
Environmental services	5,024,014	20.40%	6,726,226	22.42%	1,702,212
Other	<u>884,680</u>	3.59%	<u>480,797</u>	1.60%	( <u>403,883</u> )
	<u>\$24,623,942</u>		<u>\$30,005,310</u>		<u>\$5,381,368</u>

**City of Victoria, Texas  
Revenue by Source - Business-type Activities**

<u>Description</u>	<u>Revenues 2008</u>	<u>% of Total</u>	<u>Revenues 2007</u>	<u>% of Total</u>
Charges for services	\$28,204,434	96.99%	\$23,763,471	125.06%
Capital grants and contributions	1,800,876	6.19%	774,028	4.07%
Gain (loss) on disposition of capital assets	-	0.00%	( 194,343)	( 1.02%)
Unrestricted investment earnings	748,603	2.58%	812,815	4.28%
Miscellaneous	-	0.00%	136,395	0.72%
Transfers	( <u>1,674,251</u> )	( 5.76%)	( <u>6,290,847</u> )	( 33.11%)
<b>Total</b>	<u>\$29,079,662</u>		<u>\$19,001,519</u>	

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

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

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



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## FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

### Governmental Funds - (Continued)

As of the end of fiscal year 2008, the City's governmental funds reported combined ending fund balances of \$38,989,940, a decrease of \$3,404,823. The main reason for the decrease in the City's governmental funds is due to spending "down" prior fiscal years bond proceeds for capital improvement program projects.

Unreserved fund balance is \$24,750,140 and is available for spending, subject to regulatory, statutory, and budgetary restrictions. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period in the amount of \$14,239,800.

The City's governmental funds combined fund balance of \$38,989,940 is mainly made up of the following funds:

1. *The General Fund* is the chief operating fund of the City. At the end of fiscal year 2008, unreserved fund balance of the General Fund was \$11,055,775 while total General Fund fund balance was \$14,846,528. 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 fund expenditures. Unreserved fund balance represents 27.30% of the total General Fund expenditures, while total fund balance represents 36.66% of that same amount.

The City's General Fund fund balance was decreased by \$36,874. Key factors in this net decrease are as follows:

- Ad valorem tax revenue came in higher than expected.
  - Franchise tax revenue came in higher than expected.
  - Building permit revenue came in higher than expected.
  - Ambulance fee revenue came in higher than expected.
  - Personnel cost came in lower than expected.
  - Traffic supplies and maintenance came in lower than expected.
  - Land for Fire Station No. 6 was not purchased in FY 2008.
  - Transfer to the Construction Fund-Lone Tree Trail Project was lower than expected.
2. *The Streets and Drainage Use Bonds Fund* is a capital project fund used to account for the funding of streets and drainage improvements funded by the 2000 and 2001 general obligation bond issues. At the end of fiscal year 2008, total fund balance of the Street and Drainage Use Bonds Fund was \$416,129. The fund balance is considered reserved for outstanding construction contracts as of September 30, 2008.
  3. *The Residential/Arterial Capital Improvement Program Fund* is a capital project fund used to account for the funding of street improvements and to pay for professional services related to the issuance of the 2005, 2006, and 2007 Certificates of Obligation. At the end of fiscal year 2008, unreserved fund balance of the Residential/Arterial Capital Improvement Program Fund was \$11,662,468, while total Residential/Arterial Capital Improvement Program Fund fund balance was \$21,695,386. The difference between the unreserved fund balance and total fund balance is \$10,032,918 which is considered a reserved fund balance for outstanding construction contracts as of September 30, 2008.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)**

**Governmental Funds - (Continued)**

- 4. *The Debt Service Fund* is a debt service fund used to account for the General Obligation Bond and Certificate of Obligation Bond debt repayments and revenue collections. At the end of fiscal year 2008, unreserved fund balance of the Debt Service Fund was \$1,185,901, while total Debt Service Fund fund balance was \$1,185,901.

**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 proprietary funds at the end of the fiscal year amounted to:

<u>Fund</u>	<u>2008 Unrestricted Net Assets</u>	<u>2007 Unrestricted Net Assets</u>
Water and Wastewater	\$5,847,019	\$ 7,867,963
Environmental Services	4,679,769	3,404,218
Other	<u>2,030,660</u>	<u>1,657,362</u>
Total	<u>\$12,557,448</u>	<u>\$12,929,543</u>

Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

- Differences between the General Fund's original budget and final amended budget for expenditures, which increased by \$3,650,348 and can be briefly summarized as follows:
  - \$2,860,348 for encumbrances carried over from prior fiscal year.
  - \$200,000 for land acquisition for Fire Station No. 6.
  - \$200,000 for legal expenditures.
  - \$390,000 for FY 2008 Reclaim & Overlay Street Project.
- Of this increase, \$2,860,348 was funded out of the fiscal year 2007 reserve fund balance for encumbrances and the remaining \$790,000 came out of the fiscal year 2008 unreserved fund balance.
- For fiscal year 2008, the General Fund's revenues came in \$1,130,158 higher - compared to the final budget. The positive budget variance is due mainly to:
  - Franchise tax revenue came in \$341,027 higher.
  - Licenses and permits revenues came in \$185,291 higher.
  - Inter-local government revenue came in \$446,229 higher.
  - Charges for services came in \$137,691 higher.
  - Online auction sales (included in miscellaneous revenue) came in \$120,390 higher.

## GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)

- For fiscal year 2008, the General Fund's actual expenditures came in \$6,592,860 lower than the final budget. This positive variance is mainly due to:
- As of September 30, 2008, the City had \$3,903,699 of outstanding purchase orders and contracts.
  - Transfer to Construction Fund-Lone Tree Trail Project was \$104,000 less than what was budgeted.
  - Personnel service cost came in \$1,200,245 under budget due to various vacant positions.
  - Traffic supplies and maintenance came in \$335,000 under budget.
  - \$200,000 for the fire station no. 6 land was not acquired in FY 2008.
  - Net from various expenditures accounts came in \$849,916 lower than expected.

## 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, 2008, amounts to \$238,976,486 (net of accumulated depreciation). This investment in capital assets includes land, buildings, office equipment, machinery and equipment, improvements other than buildings, streets and bridges, water and wastewater distribution system, and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was \$20,513,772 or 9.39% (a \$18,868,870 or 15.52% increase for governmental activities and \$1,644,902 or 1.70% increase for business-type activities).

Major capital asset events during the current fiscal year included the following capital purchases, constructions, and deletions:

### City of Victoria, Texas Capital Asset Investment Activity Schedule

Capital Asset Description	Additions		Deletions		Net Total
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	
Land	\$ -	\$ -	\$ 1,029,831	\$ 10,000	\$ 1,019,831
Buildings	458,709	20,579	416,209	203,751	650,588
Other structure improvements	67,600	294,514	-	-	(226,914)
Infrastructure - streets, drainage, traffic, and sidewalks, etc.	2,216,857	-	-	5,229	2,211,628
Construction in progress	22,157,151	2,183,930	3,119,548	2,867,205	20,225,564
Machinery, equipment, and vehicles	3,782,779	1,643,163	771,236	15,883	2,894,969
Water and wastewater distribution system	-	-	3,099,845	-	3,099,845
Total	\$ 28,683,096	\$ 4,142,186	\$ 8,436,669	\$ 3,102,068	29,875,511
					FY 2008 depreciation expense ( 11,184,703)
					FY 2008 accumulated depreciation deletions: 1,822,964
					Primary government beginning capital assets balance: <u>218,462,714</u>
					Primary government ending capital assets balance: <u>\$238,976,486</u>

**CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)**

**Capital Assets - (Continued)**

The following financial table represents the City's total capital assets as of September 30, 2008:

<b>City of Victoria, Texas</b>						
<b>Capital Assets</b>						
<b>(Net of Depreciation)</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Land	\$ 3,728,189	\$ 3,728,189	\$ 4,064,644	\$ 3,044,813	\$ 7,792,833	\$ 6,773,002
Construction in progress	41,766,296	21,793,075	3,371,405	3,119,062	45,137,701	24,912,137
Machinery and equipment	11,664,816	10,295,339	1,172,151	659,962	12,836,967	10,955,301
Buildings	2,931,366	2,639,632	31,672,044	32,559,421	34,603,410	35,199,053
Improvements other than buildings	3,636,770	3,942,695	719,710	781,148	4,356,480	4,723,843
Infrastructure	76,730,019	79,189,656	259,797	274,457	76,989,816	79,464,113
Water and wastewater distribution system	-	-	<u>57,259,279</u>	<u>56,435,262</u>	<u>57,259,279</u>	<u>56,435,262</u>
Total	<u>\$140,457,456</u>	<u>\$121,588,586</u>	<u>\$98,519,030</u>	<u>\$96,874,125</u>	<u>\$238,976,486</u>	<u>\$218,462,711</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

**Long-Term Debt**

At the end of fiscal year 2008, the City had total bonded debt outstanding of \$139,575,000. Of this amount, \$72,600,000 comprises debt backed by the full faith and credit of the government and \$66,975,000 secured solely by specific revenue sources (i.e., revenue bonds). In addition, the City had outstanding \$1,409,501 in compensated absences, \$2,771,868 in estimated landfill closure and post-closure care cost; \$1,722,221 in net bond premium (discount), \$1,912,243 in deferred financing costs, and \$219,790 in rebatable arbitrage as of September 30, 2008.

<b>City of Victoria, Texas</b>						
<b>Outstanding Debt, Net Bond Premium (Discount), and Deferred Financing Costs</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$					
General obligation bonds	33,720,000	\$ 35,050,000	\$ -	\$ -	\$ 33,720,000	\$ 35,050,000
Certificate of obligation bonds	38,880,000	30,880,000	-	-	38,880,000	30,880,000
Revenue bonds	-	-	66,975,000	70,360,000	66,975,000	70,360,000
Compensated absences	1,212,694	1,099,217	196,807	198,436	1,409,501	1,297,653
Rebatable arbitrage	219,654	268,797	136	6,564	219,790	275,361
Estimated landfill closure and post-closure care cost	-	-	2,771,868	2,671,551	2,771,868	2,671,551
Net bond premium (discount)	293,498	113,426	1,428,723	1,527,699	1,722,221	1,641,125
Deferred financing costs	<u>( 1,278,839)</u>	<u>( 1,364,095)</u>	<u>( 633,404)</u>	<u>( 682,127)</u>	<u>( 1,912,243)</u>	<u>( 2,046,222)</u>
Total	<u>\$ 73,047,007</u>	<u>\$ 66,047,345</u>	<u>\$ 70,739,130</u>	<u>\$ 74,082,123</u>	<u>\$143,786,137</u>	<u>\$ 140,129,468</u>

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## **CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)**

### **Long-Term Debt - (Continued)**

The City's debt had a net increase of \$3,656,669 or 2.61%. The key factors to this net increase are the following:

- Debt payments of \$3,325,000 in governmental activities bonds and \$3,385,000 in business-type activities bonds were made during fiscal year 2008,
- The City issued \$9,995,000 in certificates of obligation in fiscal year 2008,
- Compensated absences liability increased by \$111,848,
- Landfill closure/post-closure care cost was increased by the annual amortization cost of \$100,317,
- Rebutable arbitrage was decreased by \$55,571.

Additional information on the City's debt can be found in Note 10 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The unemployment rate for the City as of November 2008 was estimated at 4.7% per the U.S. Department of Labor website. This compares favorably to the national average rate of 6.8%.
- Property taxes (i.e., ad valorem taxes) are based on the value of total appraised, assessed taxable property in the City. The property tax levy includes the taxable value of new improvements and property annexed since January 1, 2007. The 2008-2009 total appraised value of all property in the City of Victoria, as rendered by the Victoria County Tax Appraisal District, is \$3,090,600,493, an increase over last year's tax roll of \$266,623,503 or 9.44%.

The 2008-2009 frozen appraised values (65 & over, disabled) is \$375,240,030, an increase over last year's frozen appraised values of \$31,539,263 or 9.18%.

The total appraised value (excluding frozen appraised values) for fiscal year 2009 is \$2,715,360,463.

In comparing fiscal year 2008 taxable appraised values (\$2,774,180,872) with fiscal year 2009 taxable appraised values (\$3,029,733,559), after adjusting for the frozen tax appraised values, fiscal year 2009 taxable appraised values were increased by 9.21% or \$255,552,687. This increase consists of 39.23% or \$100,254,426 from new improvements and 60.77% or \$155,298,261 from re-appraisals.

- Total building permits issued in fiscal year 2008 were 1,345 compared to 1,147 in fiscal year 2007, an increase of 198.
- Victoria, the second oldest incorporated city in Texas, celebrated its 178<sup>th</sup> birthday in October 2002. More than 185,000 people live in the seven-county region known as the "Golden Crescent," which surrounds the City. The City's population is approximately 62,000 and its growth rate has remained low but steady.
- The local PCE Inflation rate is approximately 2.1 which compares favorably to national and state indices.
- The City is expecting sales tax revenue for fiscal year 2009 to be approximately 2.5% higher than what was received in fiscal year 2008.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)**

- The General Fund unreserved fund balance at September 30, 2008, came in \$4,981,113 above the minimum required unreserved fund balance of \$6,074,662. The City has a policy of maintaining a minimum unreserved fund balance of 15% of total actual expenditures. Most of the excess unreserved fund balance will be used during fiscal year 2009 on one-time/non-reoccurring expenditures and on capital improvement projects.
- For FY 2009, Council increased its minimum unreserved fund balance from 15% to 18.5%.
- The ad valorem tax rate for fiscal year 2009 was set at \$0.6500, a decrease of \$0.0250 from last year's tax rate of \$0.6750.
- Water and sewer rates were increased in fiscal year 2009. More detailed information on this subject can be found in the City's fiscal year 2009 budget.
- During fiscal year 2008, the City implemented a "once-a-week"/automated truck garbage pick-up system where by it will allow the garbage rates to remain at \$13.75 per month instead of increasing the rate to approximately \$19.00 if the City continued with the old system of "twice-of-week"/rear loader trucks. The City is anticipating approximately \$850,000 in savings over the next fiscal years.

In addition, the City will be evaluating its recycling department operations and developing a business/operating plan in fiscal year 2009.

The City bid out its landfill operations and received five proposals. Republic Waste, Inc. was awarded the City landfill operating contract in October 2007. As a result, the City was able to reduce its landfill tipping fees from approximately \$40/ton to \$20/ton (fixed for three fiscal years). The tipping fees for others went from approximately \$40/ton to \$34/ton. In addition, Republic Waste, Inc. gave the City \$2 million one-time royalty payment (note: the City will continue to receive host-fee on all tipping fees paid at the landfill) and promised to invest approximately \$1.3 million in landfill improvements.

- The City's next five fiscal years Capital Improvement Program Projects consist of approximately \$89 million; fiscal year 2009 - \$30 million, fiscal year 2010 - \$27 million, fiscal year 2011 - \$3 million, fiscal year 2012 - \$25 million, and fiscal year 2013 - \$4 million. More detailed information on this subject can be found in the City's fiscal year 2009 budget.

### **Requests for Information**

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Director, 700 Main Center, Suite 100, Victoria, Texas 77901.



**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 25,556,926	\$ 8,449,043	\$ 34,005,969	\$ 3,554,285
Investments	23,500,236	-	23,500,236	12,047,955
Receivables (net)	6,610,810	1,913,421	8,524,231	525,575
Internal balances	527,534	(527,534)	-	-
Due from component units	12,165	-	12,165	-
Inventory	384,149	-	384,149	-
Returned checks	14,280	4,496	18,776	-
Restricted assets				
Cash and cash equivalents	23,000	9,226,974	9,249,974	-
Investments	-	4,988,719	4,988,719	-
<b>Total current assets</b>	<b>56,629,100</b>	<b>24,055,119</b>	<b>80,684,219</b>	<b>16,127,815</b>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	45,494,485	7,436,049	52,930,534	12,921,370
Buildings, improvements, and equipment (net)	94,962,971	91,082,981	186,045,952	297,323
Bond issue costs (net)	923,623	977,348	1,900,971	170,145
Deposits	-	82,673	82,673	-
<b>Total noncurrent assets</b>	<b>141,381,079</b>	<b>99,579,051</b>	<b>240,960,130</b>	<b>13,388,838</b>
<b>Total assets</b>	<b>198,010,179</b>	<b>123,634,170</b>	<b>321,644,349</b>	<b>29,516,653</b>



	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 5,189,241	\$ 901,787	\$ 6,091,028	\$ 744,368
Accrued expenses	1,740,314	359,424	2,099,738	-
Due to other governments	108,696	93,707	202,403	-
Customer deposits	-	32,985	32,985	-
Claims payable	659,860	-	659,860	-
Unearned revenue	72,810	-	72,810	-
Due to primary government	-	-	-	12,165
Accrued compensated absences	11,033	1,790	12,823	-
Accrued interest payable	384,500	992,383	1,376,883	132,228
Current portion of long-term obligations	<u>3,805,000</u>	<u>3,400,000</u>	<u>7,205,000</u>	<u>735,000</u>
Total current liabilities	<u>11,971,454</u>	<u>5,782,076</u>	<u>17,753,530</u>	<u>1,623,761</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (net of deferred amounts)	67,809,659	64,370,319	132,179,978	7,301,689
Accrued compensated absences	1,201,661	195,017	1,396,678	-
Rebatable arbitrage	219,654	136	219,790	82,779
Estimated landfill closure and postclosure care cost	-	<u>2,771,868</u>	<u>2,771,868</u>	-
Total noncurrent liabilities	<u>69,230,974</u>	<u>67,337,340</u>	<u>136,568,314</u>	<u>7,384,468</u>
<b>Total liabilities</b>	<u>81,202,428</u>	<u>73,119,416</u>	<u>154,321,844</u>	<u>9,008,229</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	82,236,177	37,957,306	120,193,483	5,182,004
Restricted for:				
Debt service	801,401	-	801,401	-
Capital projects	-	-	-	799,500
Special programs	662,055	-	662,055	-
Unrestricted net assets	<u>33,108,118</u>	<u>12,557,448</u>	<u>45,665,566</u>	<u>14,526,920</u>
<b>Total net assets</b>	<u>\$ 116,807,751</u>	<u>\$ 50,514,754</u>	<u>\$ 167,322,505</u>	<u>\$ 20,508,424</u>

The accompanying notes are an integral part of this statement.

**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2008

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 6,931,856	\$ 1,984,766	\$ 1,103,803	\$ -
Public safety	21,735,079	5,061,946	654,622	-
Highways and streets	7,823,283	-	-	4,000,000
Culture and recreation	5,103,708	199,493	24,472	-
Interest on long-term debt	3,292,118	-	-	-
Total governmental activities	<u>44,886,044</u>	<u>7,246,205</u>	<u>1,782,897</u>	<u>4,000,000</u>
Business-type activities				
Water/wastewater	18,715,248	20,997,411	-	1,800,876
Environmental services	5,024,014	6,726,226	-	-
Other	884,680	480,797	-	-
Total business-type activities	<u>24,623,942</u>	<u>28,204,434</u>	<u>-</u>	<u>1,800,876</u>
Total primary government	<u>\$ 69,509,986</u>	<u>\$ 35,450,639</u>	<u>\$ 1,782,897</u>	<u>\$ 5,800,876</u>
<b>Component Units</b>	<u>\$ 6,856,679</u>	<u>\$ 56,101</u>	<u>\$ -</u>	<u>\$ 820,000</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales taxes
- Franchise taxes
- Other taxes

- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (3,843,287)	\$ -	\$ (3,843,287)	\$ -
(16,018,511)	-	(16,018,511)	-
(3,823,283)	-	(3,823,283)	-
(4,879,743)	-	(4,879,743)	-
(3,292,118)	-	(3,292,118)	-
<u>(31,856,942)</u>	<u>-</u>	<u>(31,856,942)</u>	<u>-</u>
-	4,083,039	4,083,039	-
-	1,702,212	1,702,212	-
<u>-</u>	<u>(403,883)</u>	<u>(403,883)</u>	<u>-</u>
<u>-</u>	<u>5,381,368</u>	<u>5,381,368</u>	<u>-</u>
<u>(31,856,942)</u>	<u>5,381,368</u>	<u>(26,475,574)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,980,578)</u>
12,082,825	-	12,082,825	-
6,648,294	-	6,648,294	-
13,545,220	-	13,545,220	6,772,610
4,678,027	-	4,678,027	-
1,306,496	-	1,306,496	-
2,062,275	748,603	2,810,878	625,362
577,458	-	577,458	8,323
<u>1,674,251</u>	<u>(1,674,251)</u>	<u>-</u>	<u>-</u>
<u>42,574,846</u>	<u>(925,648)</u>	<u>41,649,198</u>	<u>7,406,295</u>
10,717,904	4,455,720	15,173,624	1,425,717
<u>106,089,847</u>	<u>46,059,034</u>	<u>152,148,881</u>	<u>19,082,707</u>
<u>\$ 116,807,751</u>	<u>\$ 50,514,754</u>	<u>\$ 167,322,505</u>	<u>\$ 20,508,424</u>

**CITY OF VICTORIA, TEXAS**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2008*

	<u>General</u>	<u>Debt Service</u>	<u>Streets and Drainage Use Bonds</u>	<u>Residential/Arterial Capital Improvement Program</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 8,742,194	\$ 185,901	\$ 1,323,901	\$ 7,874,256
Investments	6,507,292	1,000,000	-	15,992,944
Receivables (net)	5,181,957	374,971	-	-
Due from other funds	341,671	-	-	-
Due from component units	12,165	-	-	-
Returned checks	14,280	-	-	-
<b>Total assets</b>	<u>\$ 20,799,559</u>	<u>\$ 1,560,872</u>	<u>\$ 1,323,901</u>	<u>\$ 23,867,200</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 970,368	\$ -	\$ 907,772	\$ 2,171,814
Accrued expenditures	1,659,456	-	-	-
Accrued compensated absences	1,753	-	-	-
Due to other governments	108,696	-	-	-
Due to other funds	317,176	-	-	-
Deferred revenue	2,895,582	374,971	-	-
<b>Total liabilities</b>	<u>5,953,031</u>	<u>374,971</u>	<u>907,772</u>	<u>2,171,814</u>
<b>Fund balances</b>				
Reserved for:				
Encumbrances	3,790,753	-	416,129	10,032,918
Unreserved, undesignated reported in:				
General fund	11,055,775	-	-	-
Special revenue funds	-	-	-	-
Debt service fund	-	1,185,901	-	-
Capital project funds	-	-	-	11,662,468
<b>Total fund balances</b>	<u>14,846,528</u>	<u>1,185,901</u>	<u>416,129</u>	<u>21,695,386</u>
<b>Total liabilities and fund balances</b>	<u>\$ 20,799,559</u>	<u>\$ 1,560,872</u>	<u>\$ 1,323,901</u>	<u>\$ 23,867,200</u>

The accompanying notes are an integral part of this statement.

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Other Governmental Funds	Total Governmental Funds
\$ 956,694	\$ 19,082,946
-	23,500,236
807,219	6,364,147
51,860	393,531
-	12,165
-	14,280
<u>\$ 1,815,773</u>	<u>\$ 49,367,305</u>

\$ 323,143	\$ 4,373,097
-	1,659,456
-	1,753
-	108,696
573,824	891,000
72,810	3,343,363
<u>969,777</u>	<u>10,377,365</u>

-	14,239,800
-	11,055,775
786,064	786,064
-	1,185,901
<u>59,932</u>	<u>11,722,400</u>
<u>845,996</u>	<u>38,989,940</u>
<u>\$ 1,815,773</u>	<u>\$ 49,367,305</u>

**CITY OF VICTORIA, TEXAS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

September 30, 2008

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<b>Total governmental fund balances</b>		<b>\$ 38,989,940</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		15,257,764
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,365,578
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		1,904,975
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$218,724,209 and the accumulated depreciation is \$86,984,888.		131,739,321
Other noncurrent assets (for example, bond issue costs) used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$1,291,101 and the accumulated amortization is \$367,478.		923,623
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	\$ (72,600,000)	
Bond premiums	(293,498)	
Deferred loss on refunding	1,278,839	
Accrued interest on the bonds	(384,500)	
Rebatable arbitrage	(219,654)	
Compensated absences	(1,154,637)	(73,373,450)
<b>Net assets of governmental activities</b>		<b><u>\$ 116,807,751</u></b>

The accompanying notes are an integral part of this statement.



**CITY OF VICTORIA, TEXAS***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**GOVERNMENTAL FUNDS**For the year ended September 30, 2008*

	General	Debt Service	Streets and Drainage Use Bonds	Residential/Arterial Capital Improvement Program
<b>REVENUES</b>				
Taxes	\$ 30,574,663	\$ 6,612,823	\$ -	\$ -
Licenses and permits	787,190	-	-	-
Intergovernmental	2,746,477	-	-	-
Charges for services	1,764,291	-	-	-
Fines and forfeitures	1,165,607	-	-	-
Investment income	551,130	91,494	155,913	1,036,386
Miscellaneous	476,685	-	2,000,000	2,000,000
<b>Total revenues</b>	<u>38,066,043</u>	<u>6,704,317</u>	<u>2,155,913</u>	<u>3,036,386</u>
<b>EXPENDITURES</b>				
Current				
General government	4,997,289	-	-	-
Public safety	24,970,116	-	-	-
Highways and streets	4,961,785	-	-	-
Culture and recreation	5,568,554	-	-	-
Capital outlay	-	-	7,423,582	11,403,398
Debt service				
Principal retirement	-	3,325,000	-	-
Interest and fiscal charges	-	3,117,121	-	-
Paying agents' fees and issue costs	-	9,800	-	176,003
<b>Total expenditures</b>	<u>40,497,744</u>	<u>6,451,921</u>	<u>7,423,582</u>	<u>11,579,401</u>
Excess (deficiency) of revenues over expenditures	(2,431,701)	252,396	(5,267,669)	(8,543,015)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	-	-	-	9,995,000
Premium on issuance of bonds	-	-	-	195,519
Transfers in	2,524,042	-	-	-
Transfers out	(129,215)	-	-	-
<b>Total other financing sources (uses)</b>	<u>2,394,827</u>	<u>-</u>	<u>-</u>	<u>10,190,519</u>
Change in fund balances	(36,874)	252,396	(5,267,669)	1,647,504
Fund balances at beginning of year	<u>14,883,402</u>	<u>933,505</u>	<u>5,683,798</u>	<u>20,047,882</u>
<b>Fund balances at end of year</b>	<u>\$ 14,846,528</u>	<u>\$ 1,185,901</u>	<u>\$ 416,129</u>	<u>\$ 21,695,386</u>

The accompanying notes are an integral part of this statement.



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Other Governmental Funds	Total Governmental Funds
\$ 1,197,299	\$ 38,384,785
-	787,190
1,665,175	4,411,652
-	1,764,291
88,687	1,254,294
17,454	1,852,377
82,981	4,559,666
<u>3,051,596</u>	<u>53,014,255</u>
1,165,127	6,162,416
782,083	25,752,199
-	4,961,785
383,990	5,952,544
-	18,826,980
-	3,325,000
-	3,117,121
-	185,803
<u>2,331,200</u>	<u>68,283,848</u>
720,396	(15,269,593)
-	9,995,000
-	195,519
117,215	2,641,257
<u>(837,791)</u>	<u>(967,006)</u>
<u>(720,576)</u>	<u>11,864,770</u>
(180)	(3,404,823)
<u>846,176</u>	<u>42,394,763</u>
<u>\$ 845,996</u>	<u>\$ 38,989,940</u>

**CITY OF VICTORIA, TEXAS**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the year ended September 30, 2008*

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<b>Total net change in fund balances - governmental funds</b>		<b>\$ (3,404,823)</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The net income of the internal service funds is reported with governmental activities.		3,543,363
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2007/2008 capital outlays is to increase net assets.		23,643,440
The net effect of various transactions involving capital assets (i.e., transfers, adjustments and dispositions) is to increase net assets.		(155,078)
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(6,079,412)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
2007 Certificates of Obligations		(9,995,000)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond principal retirement		3,325,000
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year end and are not reported as revenue in the governmental funds.		
Property taxes	\$ 63,218	
Other revenues	<u>37,389</u>	100,607
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	(124,622)	
Decrease in rebatable arbitrage	49,143	
Increase in accrued interest	(38,440)	
Decrease in loss on bond refunding	(85,256)	
Net increase in bond premium	(180,072)	
Net increase in bond issue costs	<u>119,054</u>	<u>(260,193)</u>
<b>Change in net assets of governmental activities</b>		<b><u>\$ 10,717,904</u></b>

The accompanying notes are an integral part of this statement.



**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2008

	Business-type Activities			Total	Governmental Activities Internal Service Funds
	Water and Wastewater	Environmental Services	Other Enterprise Funds		
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 6,005,445	\$ 1,312,770	\$ 1,130,828	\$ 8,449,043	\$ 6,473,980
Receivables (net)	1,675,556	236,344	1,521	1,913,421	246,663
Due from other funds	-	-	232,110	232,110	1,028,507
Inventory	-	-	-	-	384,149
Returned checks	3,838	-	658	4,496	-
Restricted assets					
Cash and cash equivalents	4,497,587	3,973,235	756,152	9,226,974	23,000
Investments	1,981,427	3,007,292	-	4,988,719	-
<b>Total current assets</b>	<b>14,163,853</b>	<b>8,529,641</b>	<b>2,121,269</b>	<b>24,814,763</b>	<b>8,156,299</b>
Noncurrent assets					
Capital assets					
Land and other assets not being depreciated	6,236,360	799,931	399,758	7,436,049	173,175
Buildings, improvements, and equipment (net)	86,818,052	533,844	3,731,085	91,082,981	8,544,960
Bond issue costs (net)	977,348	-	-	977,348	-
Deposits	82,673	-	-	82,673	-
<b>Total noncurrent assets</b>	<b>94,114,433</b>	<b>1,333,775</b>	<b>4,130,843</b>	<b>99,579,051</b>	<b>8,718,135</b>
<b>Total assets</b>	<b>108,278,286</b>	<b>9,863,416</b>	<b>6,252,112</b>	<b>124,393,814</b>	<b>16,874,434</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	760,119	116,010	25,658	901,787	816,144
Accrued expenses	229,012	115,011	15,401	359,424	80,858
Accrued compensated absences	1,258	455	77	1,790	9,280
Due to other governments	-	93,707	-	93,707	-
Due to other funds	48,376	703,217	8,051	759,644	3,504
Customer deposits	-	-	32,985	32,985	-
Claims payable	-	-	-	-	659,860
Accrued interest payable	992,383	-	-	992,383	-
Current portion of revenue bonds	3,400,000	-	-	3,400,000	-
<b>Total current liabilities</b>	<b>5,431,148</b>	<b>1,028,400</b>	<b>82,172</b>	<b>6,541,720</b>	<b>1,569,646</b>
Noncurrent liabilities					
Revenue bonds (net)	64,370,319	-	-	64,370,319	-
Accrued compensated absences	136,976	49,604	8,437	195,017	47,024
Rebatable arbitrage earnings	136	-	-	136	-
Estimated landfill closure and postclosure care cost	-	2,771,868	-	2,771,868	-
<b>Total noncurrent liabilities</b>	<b>64,507,431</b>	<b>2,821,472</b>	<b>8,437</b>	<b>67,337,340</b>	<b>47,024</b>
<b>Total liabilities</b>	<b>69,938,579</b>	<b>3,849,872</b>	<b>90,609</b>	<b>73,879,060</b>	<b>1,616,670</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	32,492,688	1,333,775	4,130,843	37,957,306	8,718,135
Unrestricted net assets	5,847,019	4,679,769	2,030,660	12,557,448	6,539,629
<b>Total net assets</b>	<b>\$ 38,339,707</b>	<b>\$ 6,013,544</b>	<b>\$ 6,161,503</b>	<b>\$ 50,514,754</b>	<b>\$ 15,257,764</b>

The accompanying notes are an integral part of this statement.

**CITY OF VICTORIA, TEXAS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the year ended September 30, 2008

	Business-type Activities			Total	Governmental Activities Internal Service Funds
	Water and Wastewater	Environmental Services	Other Enterprise Funds		
<b>OPERATING REVENUES</b>					
Charges for services	\$ 20,966,306	\$ 4,700,776	\$ 480,797	\$ 26,147,879	\$ 14,028,903
Miscellaneous	31,105	2,025,450	-	2,056,555	113,875
<b>Total operating revenues</b>	<u>20,997,411</u>	<u>6,726,226</u>	<u>480,797</u>	<u>28,204,434</u>	<u>14,142,778</u>
<b>OPERATING EXPENSES</b>					
Personnel	3,639,038	1,691,102	233,503	5,563,643	1,308,588
Materials and supplies	1,189,388	218,427	66,697	1,474,512	1,667,959
Maintenance	929,934	2,135	35,916	967,985	98,723
Heat, lights and power	1,018,484	16,112	147,759	1,182,355	25,883
Reinsurance premiums	-	-	-	-	683,441
Miscellaneous services	1,481,490	1,754,077	69,344	3,304,911	610,264
Contractual services	3,671,984	316,988	2,801	3,991,773	1,044,480
Computer services	128,208	30,103	-	158,311	54,856
Monitoring costs	-	23,580	-	23,580	-
Court costs, judgments and damages	-	-	-	-	16,312
Claims expense	-	-	-	-	3,837,105
Wellness program	-	-	-	-	16,753
Tipping fees	-	779,055	-	779,055	-
Landfill closure and postclosure care cost	-	100,317	-	100,317	-
Bad debts expense	136,074	21,259	-	157,333	-
Depreciation	3,513,948	55,190	188,511	3,757,649	1,347,642
<b>Total operating expenses</b>	<u>15,708,548</u>	<u>5,008,345</u>	<u>744,531</u>	<u>21,461,424</u>	<u>10,712,006</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	5,288,863	1,717,881	(263,734)	6,743,010	3,430,772
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	379,524	322,834	46,245	748,603	160,755
Interest and fiscal charges	(2,995,607)	-	-	(2,995,607)	-
Loss on disposition of capital assets	(11,093)	(15,669)	(140,149)	(166,911)	(48,164)
Net nonoperating revenues (expenses)	<u>(2,627,176)</u>	<u>307,165</u>	<u>(93,904)</u>	<u>(2,413,915)</u>	<u>112,591</u>
Income before contributions and transfers	2,661,687	2,025,046	(357,638)	4,329,095	3,543,363
Contributions and transfers					
Capital contributions	1,800,876	-	-	1,800,876	-
Transfers in	-	-	849,791	849,791	-
Transfers out	(2,126,325)	(356,300)	(41,417)	(2,524,042)	-
Total contributions and transfers	<u>(325,449)</u>	<u>(356,300)</u>	<u>808,374</u>	<u>126,625</u>	<u>-</u>
Change in net assets	2,336,238	1,668,746	450,736	4,455,720	3,543,363
Total net assets at beginning of year	<u>36,003,469</u>	<u>4,344,798</u>	<u>5,710,767</u>	<u>46,059,034</u>	<u>11,714,401</u>
<b>Total net assets at end of year</b>	<u>\$ 38,339,707</u>	<u>\$ 6,013,544</u>	<u>\$ 6,161,503</u>	<u>\$ 50,514,754</u>	<u>\$ 15,257,764</u>

The accompanying notes are an integral part of this statement.

**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2008

	Business-type Activities		
	Water and Wastewater	Environmental Services	Other Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 20,871,899	\$ 6,872,307	\$ 483,395
Cash paid to suppliers for goods and services	(7,927,266)	(3,159,595)	(308,860)
Cash paid to employees for services	(3,601,565)	(1,662,487)	(229,242)
<b>Net cash provided (used) by operating activities</b>	<u>9,343,068</u>	<u>2,050,225</u>	<u>(54,707)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Increase (decrease) in customer deposits	-	-	3,350
Borrowings from (to) other funds	-	640,995	(138,385)
Repayments to other funds	(7,180)	-	-
Transfers in from other funds	-	-	849,791
Transfers out to other funds	(2,126,325)	(356,300)	(41,417)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(2,133,505)</u>	<u>284,695</u>	<u>673,339</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(2,919,782)	(464,052)	(406,098)
Principal paid on revenue bonds	(3,385,000)	-	-
Interest paid on revenue bonds	(2,955,863)	-	-
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(9,260,645)</u>	<u>(464,052)</u>	<u>(406,098)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments	3,318,573	11,226,759	-
Purchase of investments	(5,300,000)	(12,400,000)	-
Rebatable arbitrage payments	(4,125)	-	-
Investment income	373,097	322,834	46,245
<b>Net cash provided (used) by investing activities</b>	<u>(1,612,455)</u>	<u>(850,407)</u>	<u>46,245</u>
Net increase (decrease) in cash and cash equivalents	(3,663,537)	1,020,461	258,779
Cash and cash equivalents at beginning of year	<u>14,166,569</u>	<u>4,265,544</u>	<u>1,628,201</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 10,503,032</u>	<u>\$ 5,286,005</u>	<u>\$ 1,886,980</u>

The accompanying notes are an integral part of this statement.

<u>Total</u>	Governmental Activities Internal Service Funds
\$ 28,227,601	\$ 13,442,285
(11,395,721)	(7,318,396)
<u>(5,493,294)</u>	<u>(1,291,755)</u>
11,338,586	4,832,134
3,350	-
502,610	1,990
(7,180)	(1,826)
849,791	-
<u>(2,524,042)</u>	<u>-</u>
(1,175,471)	164
(3,789,932)	(2,855,727)
(3,385,000)	-
<u>(2,955,863)</u>	<u>-</u>
(10,130,795)	(2,855,727)
14,545,332	-
(17,700,000)	-
(4,125)	-
742,176	160,755
<u>(2,416,617)</u>	<u>160,755</u>
(2,384,297)	2,137,326
20,060,314	4,359,654
<u>\$ 17,676,017</u>	<u>\$ 6,496,980</u>

(continued)

**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2008

	Business-type Activities		
	Water and Wastewater	Environmental Services	Other Enterprise Funds
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 5,288,863	\$ 1,717,881	\$ (263,734)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	3,513,948	55,190	188,511
Bad debts expense	136,074	21,259	-
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(234,158)	(21,693)	-
(Increase) decrease in other receivables	109,839	167,774	2,598
(Increase) decrease in returned checks	(1,193)	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	-	-
Increase (decrease) in accounts payable	492,222	(22,453)	13,657
Increase (decrease) in accrued expenses	38,216	29,140	4,622
Increase (decrease) in compensated absences	(743)	(525)	(361)
Increase (decrease) in due to other governments	-	3,335	-
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in landfill closure and postclosure care cost	-	100,317	-
Total adjustments	<u>4,054,205</u>	<u>332,344</u>	<u>209,027</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 9,343,068</u></b>	<b><u>\$ 2,050,225</u></b>	<b><u>\$ (54,707)</u></b>
<b>Reconciliation of cash and cash equivalents</b>			
Unrestricted			
Cash and cash equivalents	\$ 6,005,445	\$ 1,312,770	\$ 1,130,828
Restricted			
Cash and cash equivalents	<u>4,497,587</u>	<u>3,973,235</u>	<u>756,152</u>
Total	<u>\$ 10,503,032</u>	<u>\$ 5,286,005</u>	<u>\$ 1,886,980</u>

**Noncash capital and related financing activities**

The Water and Wastewater Fund received noncash contributions relating to capital asset additions of \$2,876 for fiscal year 2008.

The accompanying notes are an integral part of this statement.



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<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 6,743,010	\$ 3,430,772
3,757,649	1,347,642
157,333	-
(255,851)	-
280,211	(69,665)
(1,193)	-
-	(709,596)
-	46,871
483,426	651,757
71,978	14,858
(1,629)	1,975
3,335	-
-	117,520
<u>100,317</u>	<u>-</u>
<u>4,595,576</u>	<u>1,401,362</u>
<u>\$ 11,338,586</u>	<u>\$ 4,832,134</u>
\$ 8,449,043	\$ 6,473,980
<u>9,226,974</u>	<u>23,000</u>
<u>\$ 17,676,017</u>	<u>\$ 6,496,980</u>

**CITY OF VICTORIA, TEXAS**  
*STATEMENT OF FIDUCIARY NET ASSETS*  
*FIDUCIARY FUNDS*  
*September 30, 2008*

	Private Purpose Trust	Agency
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,673	\$ 371,246
Receivables (net)		
Other	-	500
<b>Total assets</b>	<u>9,673</u>	<u>371,746</u>
<b>LIABILITIES</b>		
Liabilities		
Accounts payable	-	190
Due to other agencies	-	371,556
<b>Total liabilities</b>	<u>-</u>	<u>371,746</u>
<b>NET ASSETS</b>		
Unrestricted net assets	<u>\$ 9,673</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**CITY OF VICTORIA, TEXAS**

*STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS*

*FIDUCIARY FUNDS*

*For the year ended September 30, 2008*

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	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Miscellaneous	
Participants' contributions	\$ 144,834
<b>DEDUCTIONS</b>	
General government	
Participants' withdrawals	<u>143,306</u>
Changes in net assets	1,528
Net assets - beginning	<u>8,145</u>
<b>Net assets - ending</b>	<u><u>\$ 9,673</u></u>

The accompanying notes are an integral part of this statement.



**CITY OF VICTORIA, TEXAS****STATEMENT OF NET ASSETS****COMPONENT UNITS**

September 30, 2008

	Sales Tax Development Corporation	Victoria Recreation	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,522,585	\$ 31,700	\$ 3,554,285
Investments	12,047,955	-	12,047,955
Receivables (net)			
Sales taxes	<u>525,575</u>	<u>-</u>	<u>525,575</u>
Total current assets	<u>16,096,115</u>	<u>31,700</u>	<u>16,127,815</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	12,921,370	-	12,921,370
Buildings, improvements, and equipment (net)	-	297,323	297,323
Bond issue costs (net)	<u>170,145</u>	<u>-</u>	<u>170,145</u>
Total noncurrent assets	<u>13,091,515</u>	<u>297,323</u>	<u>13,388,838</u>
<b>Total assets</b>	<u>29,187,630</u>	<u>329,023</u>	<u>29,516,653</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	744,368	-	744,368
Accrued interest payable	132,228	-	132,228
Due to primary government	-	12,165	12,165
Current portion of long-term obligations	735,000	-	735,000
Noncurrent liabilities			
Rebatable arbitrage	82,779	-	82,779
Noncurrent portion of long-term obligations	<u>7,301,689</u>	<u>-</u>	<u>7,301,689</u>
<b>Total liabilities</b>	<u>8,996,064</u>	<u>12,165</u>	<u>9,008,229</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,884,681	297,323	5,182,004
Restricted for capital projects	799,500	-	799,500
Unrestricted net assets	<u>14,507,385</u>	<u>19,535</u>	<u>14,526,920</u>
<b>Total net assets</b>	<u>\$ 20,191,566</u>	<u>\$ 316,858</u>	<u>\$ 20,508,424</u>

The accompanying notes are an integral part of this statement.

**CITY OF VICTORIA, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
*For the year ended September 30, 2008*

		Program Revenues		
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Component Units</b>				
Sales Tax Development Corporation	\$ 6,790,487	\$ -	\$ -	\$ 820,000
Victoria Recreation	<u>66,192</u>	<u>56,101</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 6,856,679</u>	<u>\$ 56,101</u>	<u>\$ -</u>	<u>\$ 820,000</u>

General revenues:  
 Taxes:  
     Sales taxes  
     Unrestricted investment earnings  
     Miscellaneous  
 Total general revenues  
 Change in net assets  
 Net assets - beginning  
 Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue  
and Changes  
in Net Assets

Component Units		
Sales Tax Development Corporation	Victoria Recreation	Total
\$ (5,970,487)	\$ -	\$ (5,970,487)
-	(10,091)	(10,091)
(5,970,487)	(10,091)	(5,980,578)
6,772,610	-	6,772,610
625,231	131	625,362
8,323	-	8,323
7,406,164	131	7,406,295
1,435,677	(9,960)	1,425,717
18,755,889	326,818	19,082,707
\$ 20,191,566	\$ 316,858	\$ 20,508,424





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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Victoria (the "City"), operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning, water and sewer, and general administrative services.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units.

The component units discussed in this note are included in the City's financial statements because of the significance of their financial relationships with the City.

Excluded from the reporting entity:

Victoria Independent School District - Provides educational services to the residents of the City. The Independent School District's board members are elected by the residents of the City and County of Victoria; in addition, Victoria Independent School District provides its own source of financing.

Advisory Boards and Commissions - The City Council uses an extensive network of advisory boards and commissions in order to ensure public input to the City's decision-making process. These boards and commissions are: Building, Electrical, Health, Library, Minimum Housing, Mechanical, Plumbing, and Sign boards, Housing Authority, Parks and Recreation Commission, Planning Commission, Cultural Council, and Building and Standards Commission. The advisory boards and commissions are appointed by the City Council; however, these boards and commissions do not perform any financial activity.

Included in the reporting entity:

The component units column in the financial statements includes the financial data from two component units. These component units are reported in a separate column to emphasize that they are legally separate from the City. The component unit column is made of the following:

1. The Sales Tax Development Corporation was created for the purpose of aiding, assisting and acting on behalf of the City in undertaking and completing projects to acquire and improve drainage, water and sewage, streets and roads, parks and recreational facilities, and public safety facilities. All powers of the corporation are vested in the Board of Directors consisting of three members of the City Council and four individuals appointed by the City Council. The Board of Directors operates at the direction of the City Council. This entity is reported as a governmental fund type.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

A. Reporting Entity - (Continued)

2. The Victoria Recreation Association, Inc. was created in May 1998, to operate and maintain the softball recreational complex owned by the City of Victoria. The corporation raises and holds economic resources for the direct benefit of the City. The management of the corporation is vested in the Board of Directors consisting of three City of Victoria employees. The Board of Directors operates at the direction of the City Council. The Victoria Recreation Association, Inc. operates as a proprietary fund type.

These component units are discretely presented in the financial statements. Complete financial statements of the individual component units can be obtained from the Office of the Finance Director, 700 Main Center, Suite 100, Victoria, Texas 77901.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, discretely presented component units, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and trust fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A 120 day availability period is used for recognition of all other Governmental Fund revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

Property taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has three Capital Project Funds, two of which have been reported as major funds. The Streets and Drainage Use Bonds Fund accounts for the use of the proceeds from the City's 2000 and 2001 general obligation bond issues on streets and drainage improvements. The Residential/Arterial Capital Improvement Program accounts for the funding of street improvements by the 2005 and 2006 certificates of obligation proceeds.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) 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 or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water and Wastewater Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and the water distribution system.

The Environmental Services Fund, an enterprise fund, accounts for the operation of the City's garbage collection and landfill.

Additionally, the City reports the following fund types:

The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City maintains eight Internal Service Funds: Vehicle and Equipment Services, Information Technology, Communications, Purchasing, Safety Management, Workers' Compensation, Print Shop, and Employee Health Plan.

The Private Purpose Trust Fund, or the Section 125 Flexible Benefits Fund, is used to account for amounts withheld from employee paychecks before FICA and withholding taxes are computed. All resources of the fund, including any earnings on invested resources, may be used to benefit parties outside the City. The fund is excluded from the government-wide financial statements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

The Agency Fund accounts for the collection and payment of various trust funds such as refundable deposits and single check payments that need to be allocated to different funds. The fund is excluded from the government-wide financial statements.

The Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between various City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The Water and Wastewater Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. No funds may be expended or encumbered which will exceed appropriations; however, the City Manager is authorized to transfer budgeted amounts within any department or agency. Any revisions that alter the total expenditures of any department or agency must be approved by the City Council. There were several supplemental appropriations made during the year. The effect of budget supplements was to increase appropriations for the General Fund in the amount of \$590,000.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

D. Budgets and Budgetary Accounting - (Continued)

5. Budgets for the General, Special Revenue, Debt Service, Capital Projects, and all Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Unlike the governmental funds, the proprietary funds use the accrual basis of accounting in adopting its budget. Budget comparisons are presented in the accompanying financial statements for the funds with appropriated budgets, which are the General Fund, Debt Service Fund, and the Capital Project Funds.
6. The Debt Service Fund is budgeted by debt service issues.
7. Formal budgetary integration is employed as a management control device during the year for all governmental funds and proprietary funds.
8. All appropriations lapse at year-end.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Project Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments for the City, as well as the component units, are recorded at amortized cost, which as of September 30, 2008, approximates fair value. Because the fair value of the City's investments did not materially differ from cost, no adjustments were made to the City's reporting amounts. See Note 2 for further discussion.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 5% of the outstanding property taxes and the allowance on the penalties and interest is equal to 50% of the assessed amount.

H. Inventory and Prepaid Items

Inventory is valued at lower of cost or market, which is determined by using a monthly moving average. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide statements.

I. Restricted Assets

The City has interest and sinking accounts in the Water and Wastewater Fund that are used to segregate resources accumulated for debt service payments. The City also has set aside resources in the Environmental Services Fund to pay for closure and postclosure care costs and to fund for a new facility, and in the Community Center Fund to fund any future improvements to the Community Center facility. The restricted cash in the Workers' Compensation Fund represents those funds held by a third party administrator for future claims.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on capital assets of business-type activities when acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred during the period of construction until completion of the project with interest earned on invested proceeds over the same period.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

J. Capital Assets - (Continued)

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	40
Water and wastewater distribution system	40
Streets and bridges - parking lots	10
Sidewalks	10
Machinery and equipment	2-20
Office equipment and fixtures	2-10

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Long-Term Obligations

In the government-wide financial statements, and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Losses on refunding are capitalized and amortized over the shorter of the life of the new issuance or the life on existing debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and deferred losses on refunding as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Fund Equity

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

N. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.



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**NOTE 2: DEPOSITS AND INVESTMENTS**

As of September 30, 2008, the Reporting Entity had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
L.O.G.I.C. Pool	\$ 16,003,251	37
Texas TERM Investment Pool	3,576,861	41
TexPool Prime Pool	19,103,506	39
Commercial Paper	12,047,955	37
U.S. Government Securities	<u>30,789,691</u>	52
Total	<u>\$ 81,521,264</u>	

The investment pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but are not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares in the pools.

As previously discussed in Note 1, the investments are reported in the accompanying statements at amortized cost.

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase. The maximum weighted average maturities for the Pools' according to their respective policies are as follows: 60 days for the L.O.G.I.C. Pool, 365 days for the Texas TERM Investment Pool, and 60 days for TexPool.

Credit Risk

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with the L.O.G.I.C. Pool, the Texas TERM Investment Pool, and TexPool. The pools operate in full compliance with the Public Funds Investment Act. The investments held by the City at September 30, 2008, are rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or specific user. At year-end, the City was not exposed to concentration of credit risk.

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**NOTE 2: DEPOSITS AND INVESTMENTS - (Continued)**Custodial Credit Risk - Deposits

The City's custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held.

As of September 30, 2008, \$5,696,601 of the City's bank balance of \$5,796,601 was exposed to custodial credit risk because it was uninsured by the FDIC and collateralized with securities held by the pledging institution's trust department or agent, but not in the City's name.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2008, and for the year then ended, the City was not exposed to any custodial credit risk.

**NOTE 3: RECEIVABLES**

Receivables at September 30, 2008 consist of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Wastewater</u>	<u>Environmental Services</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ -	\$ -	\$ 1,814,681	\$ 198,101	\$ -	\$ 2,012,782
Ad valorem taxes	1,243,845	394,707	-	-	-	1,638,552
Franchise taxes	670,653	-	-	-	-	670,653
Sales taxes	1,051,151	-	-	-	-	1,051,151
Paving assessments	139,743	-	-	-	-	139,743
Weedy lots	1,384,580	-	-	-	-	1,384,580
Ambulance	3,212,553	-	-	-	-	3,212,553
Fines	1,085,986	-	-	-	-	1,085,986
Other	586,738	-	11,498	60,963	785,503	1,444,702
Total gross receivables	9,375,249	394,707	1,826,179	259,064	785,503	12,640,702
Less: allowances	4,193,292	19,736	150,623	22,720	-	4,386,371
Total net receivables	<u>\$ 5,181,957</u>	<u>\$ 374,971</u>	<u>\$ 1,675,556</u>	<u>\$ 236,344</u>	<u>\$ 785,503</u>	<u>\$ 8,254,331</u>

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**NOTE 3: RECEIVABLES - (Continued)**

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes receivable	\$ 990,607	\$ -	\$ 990,607
Paving assessments	13,974	-	13,974
Weedy lots	160,625	-	160,625
Ambulance	1,404,580	-	1,404,580
Fines	325,796	-	325,796
Debt Service Fund			
Ad valorem taxes receivable	374,971	-	374,971
Nonmajor Funds			
Grants	-	72,810	72,810
	<u>\$ 3,270,553</u>	<u>\$ 72,810</u>	<u>\$ 3,343,363</u>

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by the following January 31, which comprises the collection dates for the current tax roll. The Victoria County Tax Assessor bills, collects, and remits daily all ad valorem taxes.

The City is permitted by a local charter to levy taxes up to \$2.00 per \$100 of assessed valuation. The combined tax rate for the year ended September 30, 2008, was \$0.675 per \$100, which means that the City has a tax margin of \$1.325 per \$100 and could raise up to \$36,757,897 on \$2,774,180,872 before the limit is reached.

**NOTE 4: JOINT VENTURE**

The South Texas Zoo is a cooperative effort funded by the City of Victoria's General Fund and the South Texas Zoological Society. The South Texas Zoological Society operates and maintains the South Texas Zoo located in the City-owned Riverside Park. The City does not appoint any of the directors of the Society. As of the last financial statement, September 30, 2008, total assets were \$713,967, total liabilities were \$191,008, total fund net assets was \$522,959, total support and revenues were \$514,597 and total expenses were \$596,709. Excess expenses over revenues resulted in a net loss of \$82,111. The amount contributed by the City for years ended September 30, 2008 and 2007, was \$162,500 and \$137,089, respectively. Complete audited financial statements for the South Texas Zoo may be obtained at 110 Memorial Drive, Victoria, Texas 77901.

**NOTE 5: CAPITAL ASSETS**

The City's capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 3,728,189	\$ -	\$ -	\$ 3,728,189
Construction in progress	<u>21,793,075</u>	<u>22,157,151</u>	<u>2,183,930</u>	<u>41,766,296</u>
Total capital assets not being depreciated	<u>25,521,264</u>	<u>22,157,151</u>	<u>2,183,930</u>	<u>45,494,485</u>
Capital assets, being depreciated				
Machinery and equipment	31,651,913	3,782,779	1,643,163	33,791,529
Buildings	5,962,557	458,709	20,579	6,400,687
Improvements other than buildings	6,012,432	67,600	294,514	5,785,518
Infrastructure	<u>144,387,019</u>	<u>2,216,857</u>	<u>-</u>	<u>146,603,876</u>
Total capital assets being depreciated	<u>188,013,921</u>	<u>6,525,945</u>	<u>1,958,256</u>	<u>192,581,610</u>
Less accumulated depreciation for				
Machinery and equipment	21,320,411	2,360,992	1,554,690	22,126,713
Buildings	3,322,925	151,651	5,255	3,469,321
Improvements other than buildings	2,106,021	237,796	195,069	2,148,748
Infrastructure	<u>65,197,242</u>	<u>4,676,615</u>	<u>-</u>	<u>69,873,857</u>
Total accumulated depreciation	<u>91,946,599</u>	<u>7,427,054</u>	<u>1,755,014</u>	<u>97,618,639</u>
Total capital assets being depreciated, net	<u>96,067,322</u>	<u>(901,109)</u>	<u>203,242</u>	<u>94,962,971</u>
Governmental activities capital assets, net	<u>\$121,588,586</u>	<u>\$ 21,256,042</u>	<u>\$ 2,387,172</u>	<u>\$140,457,456</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 3,044,813	\$ 1,029,831	\$ 10,000	\$ 4,064,644
Construction in progress	<u>3,119,062</u>	<u>3,119,548</u>	<u>2,867,205</u>	<u>3,371,405</u>
Total capital assets not being depreciated	<u>6,163,875</u>	<u>4,149,379</u>	<u>2,877,205</u>	<u>7,436,049</u>
Capital assets, being depreciated				
Machinery and equipment	1,934,947	771,236	15,883	2,690,300
Buildings	41,052,609	416,209	203,751	41,265,067
Improvements other than buildings	1,304,426	-	-	1,304,426
Infrastructure	418,097	-	5,229	412,868
Water and wastewater distribution system	<u>95,776,177</u>	<u>3,099,845</u>	<u>-</u>	<u>98,876,022</u>
Total capital assets being depreciated	<u>140,486,256</u>	<u>4,287,290</u>	<u>224,863</u>	<u>144,548,683</u>
Less accumulated depreciation for				
Machinery and equipment	1,289,505	243,432	14,788	1,518,149
Buildings	8,478,668	1,166,189	51,834	9,593,023
Improvements other than buildings	523,278	61,438	-	584,716
Infrastructure	143,640	10,759	1,328	153,071
Water and wastewater distribution system	<u>39,340,912</u>	<u>2,275,831</u>	<u>-</u>	<u>41,616,743</u>
Total accumulated depreciation	<u>49,776,003</u>	<u>3,757,649</u>	<u>67,950</u>	<u>53,465,702</u>
Total capital assets being depreciated, net	<u>90,710,253</u>	<u>529,641</u>	<u>156,913</u>	<u>91,082,981</u>
Business-type activities capital assets, net	<u>\$ 96,874,128</u>	<u>\$ 4,679,020</u>	<u>\$ 3,034,118</u>	<u>\$ 98,519,030</u>

**NOTE 5: CAPITAL ASSETS - (Continued)**

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

**Governmental activities**

General government	\$ 640,961
Public safety	1,345,840
Highways and streets	4,836,515
Culture and recreation	<u>603,738</u>

Total depreciation expense - governmental activities \$ 7,427,054

**Business-type activities**

Water/wastewater	3,513,948
Environmental services	55,190
Other	<u>188,511</u>

Total depreciation expense - business-type activities \$ 3,757,649

**Discretely Presented Component Units:**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Sales Tax Development Corporation</b>				
Capital assets, not being depreciated				
Land	\$ 3,527,059	\$ -	\$ -	\$ 3,527,059
Construction in progress	<u>4,151,557</u>	<u>5,245,630</u>	<u>2,876</u>	<u>9,394,311</u>
Total capital assets not being depreciated	<u>7,678,616</u>	<u>5,245,630</u>	<u>2,876</u>	<u>12,921,370</u>
Sales Tax Development Corporation capital assets, net	<u>7,678,616</u>	<u>5,245,630</u>	<u>2,876</u>	<u>12,921,370</u>
<b>Victoria Recreation</b>				
Capital assets, being depreciated				
Machinery and equipment	64,271	-	-	64,271
Improvements other than buildings	<u>461,588</u>	-	-	<u>461,588</u>
Total capital assets being depreciated	<u>525,859</u>	-	-	<u>525,859</u>
Less accumulated depreciation for				
Machinery and equipment	52,343	6,343	-	58,686
Improvements other than buildings	<u>146,698</u>	<u>23,152</u>	-	<u>169,850</u>
Total accumulated depreciation	<u>199,041</u>	<u>29,495</u>	-	<u>228,536</u>
Total capital assets being depreciated, net	<u>326,818</u>	<u>(29,495)</u>	-	<u>297,323</u>
Victoria Recreation capital assets, net	<u>326,818</u>	<u>(29,495)</u>	-	<u>297,323</u>
Discretely presented component units capital assets, net	<u>\$ 8,005,434</u>	<u>\$ 5,216,135</u>	<u>\$ 2,876</u>	<u>\$ 13,218,693</u>

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**NOTE 6: EMPLOYEES' RETIREMENT PLAN**Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 6%, and the City's matching percent is currently 2 to 1, both as adopted by the governing body of the City. 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 City's 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 retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007, valuation is effective for rates beginning January 2009).

Annual Pension Cost

For the employer's fiscal year ending September 30, 2008, the annual pension cost for the TMRS plan for its employees was \$3,032,138, and the actual contributions were \$3,032,138. The net pension obligation at the beginning and end of the fiscal year was zero.

**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the 12/31/07 and 12/31/06 valuation dates.

	Actuarial Valuation Information	
	12/31/07	12/31/06
Actuarial cost method	projected unit credit	unit credit
Amortization method	level percent of payroll	level percent of payroll
Amortization period in years	30 - closed	25 - open
Asset valuation method	amortized cost	amortized cost
Investment return	7.00%	7.00%
Projected salary increases	varies by age and service	none
Inflation	3.00%	3.50%
Cost of living adjustments	2.1% (3.0% CPI)	none
Payroll growth assumption	3.00%	5.00%
Withdrawal rates for male/female	mid-high/mid	mid/mid

Trend Information

Contributions Required and Contributions Made			
Year End September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 3,032,138	100%	\$ -
2007	2,832,675	100%	-
2006	2,810,816	100%	-

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Un-funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	\$46,442,240	\$87,624,753	\$41,182,513	53.00%	\$21,367,076	192.74%
12/31/06	46,282,645	71,171,440	24,888,795	65.03%	21,219,310	117.29%
12/31/05	47,221,367	70,045,633	22,824,266	67.42%	20,507,818	111.30%
12/31/04	47,745,102	68,950,382	21,205,280	69.25%	19,761,134	107.31%
12/31/03	48,467,691	68,277,880	19,810,189	70.99%	18,626,220	106.36%
12/31/02	48,339,276	65,745,670	17,406,394	73.52%	18,843,180	92.38%
12/31/01	47,500,581	63,148,769	15,648,188	75.22%	18,615,876	84.06%
12/31/00	46,019,013	60,178,675	14,159,662	76.47%	16,831,906	84.12%
12/31/99	45,032,453	57,905,981	12,873,528	77.77%	16,619,536	77.46%
12/31/98	41,165,608	53,387,293	12,221,685	77.11%	16,413,612	74.46%

The City is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**Trend Information - (Continued)

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007, valuation the TMRS Board determined that the Projected Unit Credit funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 30-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$27,433,719 and the funded ratio would have been 62.9%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009, actuarial valuation.

**NOTE 7: OTHER POSTEMPLOYMENT BENEFITS**

In addition to providing pension benefits, the City provides its retirees with postemployment health care benefits. In order for a City employee to be eligible for this benefit, he or she needs 20 years of service, attained the age of 60 with 5 years of service, or otherwise be eligible to retire under TMRS and receive a monthly TMRS annuity.

In fiscal year 2008, retirees had a choice of two insurance plans, "buy-up" and "core" from October 1, 2007, through December 31, 2007. Effective January 1, 2008, only the "core" plan was offered. Under the "buy-up" plan, retirees with 30 years or more of service and with Medicare coverage pay a monthly health premium of \$97.02, without Medicare, \$194.04. Retirees with 20 to 29 years of service and with Medicare coverage pay a monthly health premium of \$194.04, without Medicare, \$388.08. Retirees with less than 20 years of service and with Medicare coverage pay a monthly health premium of \$485.10, without Medicare \$970.20.

Under the "core" plan, retirees with 30 years or more of service and with Medicare coverage pay a monthly health premium of \$68, without Medicare, \$136. Retirees with 20 to 29 years of service and with Medicare coverage pay a monthly health premium of \$136, without Medicare, \$272. Retirees with less than 20 years of service and with Medicare coverage pay a monthly health premium of \$340, without Medicare \$680.



**NOTE 7: OTHER POSTEMPLOYMENT BENEFITS - (Continued)**

The retiree's dependents are allowed to participate in the health insurance plan; however, it is up to the retiree to pay for their dependent's health insurance premiums.

The City is under no obligation, statutory or otherwise, to pay any portion of the cost of postemployment benefits to any retirees. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget process.

Other postemployment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as a payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Health Plan Fund. Payments for health insurance are shown as an expense in the Employee Health Plan Fund. The cost of providing these benefits for fiscal years 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Retirees	\$ 137	\$ 137
Active employees	620	607
Payments to Employee Health Plan Fund	5,553,206	5,148,473

**NOTE 8: SELF-INSURANCE**

The City maintains a self-insurance internal service fund designed to pay comprehensive health benefits incurred by its participants. The fund assumed all risk up to \$125,000 of claims per participant annually; after this a reinsurance policy pays any remaining claims for the remainder of the year. The reinsurance premiums were \$264,897 and \$296,216 for the fiscal years ended September 30, 2008 and 2007, respectively. Premiums are charged to the individual funds based on a predetermined cost per employee and dependent. These amounts are recorded as operating revenue in the internal service fund and as operating expenditures/expenses in the respective funds. Any claims that have been incurred, but not reported, as of the balance sheet date are shown as current liabilities in the internal service fund and have been charged as an operating expense for that period. This amount was determined by an actuary through the City's health plan administrator. During the fiscal years ended September 30, 2008 and 2007, the City paid health claims of \$3,561,021 and \$3,737,880. The fund incurred a net income for the year of \$1,574,722 compared to a net income of \$940,499 for the prior year.

Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

	<u>Beginning Liability</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
Fiscal Year 2004	\$ 284,373	\$ 3,755,938	\$3,605,850	\$434,461
Fiscal Year 2005	434,461	3,695,161	3,752,417	377,205
Fiscal Year 2006	377,205	3,742,187	3,842,490	276,902
Fiscal Year 2007	276,902	3,737,880	3,662,524	352,258
Fiscal Year 2008	352,258	3,561,021	3,405,204	508,075

The City established an internal service fund called Workers' Compensation Fund in the fiscal year 1989-1990 to account for and finance its uninsured risk of loss. Under this program the Workers' Compensation Fund provides coverage for up to a maximum of \$350,000 for each workers' compensation claim. Any excess over the maximum self-insured amount would be covered by the City's workers' compensation insurance.

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**NOTE 8: SELF-INSURANCE - (Continued)**

All funds of the City participate in the program and make payments to the Workers' Compensation Fund based on actuarial estimates of the amount needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The claim liability of \$151,785 and \$190,082, for the fiscal years 2007-2008 and 2006-2007, are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. As a result of this, the Workers' Compensation Fund incurred a fund surplus (deficit) of \$358,777 and \$237,095 in the fiscal years 2008 and 2007, respectively. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

	<u>Beginning Liability</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
Fiscal Year 2004	\$ 338,462	\$ 273,449	\$ 300,486	\$311,425
Fiscal Year 2005	311,425	427,846	451,999	287,272
Fiscal Year 2006	287,272	396,219	425,585	257,906
Fiscal Year 2007	257,906	210,149	277,973	190,082
Fiscal Year 2008	190,082	276,084	314,381	151,785

The City was insured in the area of general liability, police liability, and public officials liability for the fiscal year ending September 30, 1988. On September 26, 1988, by Council resolution, the City decided to purchase insurance coverage for all risk areas; and created an internal service fund, the Safety Management Fund, to account for liability and casualty insurance premiums as well as for any claim payments made in areas of self-insurance. Under this program, the City is insured up to a combined single limit that ranges from \$5,000,000 to \$1,000,000 with various deductible amounts. For the fiscal years 2008 and 2007, total contributions from the various City funds totaled \$512,525 and \$512,525, respectively. During the fiscal years 2008 and 2007, the City paid \$418,544 and \$397,573 in reinsurance premiums and \$16,312 and \$3,000 in legal fees and claims. In addition to this, the fund incurred a net income of \$23,466, compared to a net income of \$65,977 for the prior year. Full insurance coverage was in effect for the year ended September 30, 2008. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

The City purchases commercial insurance coverage for fleet liability, contractors' equipment, comprehensive property damage, comprehensive general liability, police professional liability, public officials errors and omissions, electronic data processing physical damage, employee benefits liability, radio towers, boilers and machinery, and employee dishonesty coverage. There have been no significant reductions in insurance coverage during the fiscal year 2008. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

**NOTE 9: DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Effective January, 1997, the assets were transferred to trusts for the exclusive benefit of the participants and their beneficiaries.

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**NOTE 10: LONG-TERM DEBT****A. Changes In Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary government</b>					
<b>Governmental activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 30,880,000	\$ 9,995,000	\$ 1,995,000	\$ 38,880,000	\$ 2,310,000
General obligation bonds	35,050,000	-	1,330,000	33,720,000	1,495,000
Less deferred amounts:					
Issuance premiums	113,426	195,519	15,447	293,498	-
Loss on refunding	(1,364,095)	-	(85,256)	(1,278,839)	-
Net bonds and certificates payable	64,679,331	10,190,519	3,255,191	71,614,659	3,805,000
Rebatable arbitrage	268,797	-	49,143	219,654	-
Compensated absences	1,099,217	1,904,373	1,790,896	1,212,694	11,033
Total governmental activity long-term liabilities	<u>\$ 66,047,345</u>	<u>\$ 12,094,892</u>	<u>\$ 5,095,230</u>	<u>\$ 73,047,007</u>	<u>\$ 3,816,033</u>
<b>Business-type activities</b>					
Bonds payable					
Revenue bonds	\$ 70,360,000	\$ -	\$ 3,385,000	\$ 66,975,000	\$ 3,400,000
Less deferred amounts:					
Issuance premiums	1,527,699	-	98,976	1,428,723	-
Loss on refunding	(682,127)	-	(48,723)	(633,404)	-
Net bonds payable	71,205,572	-	3,435,253	67,770,319	3,400,000
Rebatable arbitrage	6,564	-	6,428	136	-
Estimated landfill closure and postclosure care cost	2,671,551	100,317	-	2,771,868	-
Compensated absences	198,436	296,563	298,192	196,807	1,791
Total business-type activity long-term liabilities	<u>\$ 74,082,123</u>	<u>\$ 396,880</u>	<u>\$ 3,739,873</u>	<u>\$ 70,739,130</u>	<u>\$ 3,401,791</u>
<b>Discretely presented component units</b>					
<b>Sales Tax Development Corporation</b>					
Bonds payable					
Revenue bonds	\$ 8,395,000	\$ -	\$ 535,000	\$ 7,860,000	\$ 735,000
Less deferred amounts:					
Issuance premiums	198,106	-	21,417	176,689	-
Net bonds payable	8,593,106	-	556,417	8,036,689	735,000
Rebatable arbitrage	-	82,779	-	82,779	-
Total discretely presented component units	<u>\$ 8,593,106</u>	<u>\$ 82,779</u>	<u>\$ 556,417</u>	<u>\$ 8,119,468</u>	<u>\$ 735,000</u>

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**NOTE 10: LONG-TERM DEBT - (Continued)**

**B. General Obligation Certificates and Bonds - Primary Government**

Bonds and certificates payable at September 30, 2008, are comprised of the following individual issues:

\$6,200,000 1998 Tax and Revenue Certificates of Obligation due in one annual installment of \$905,000 on February 15, 2009; interest varying between 4.00% and 5.00%	\$ 905,000
\$6,000,000 1999 Tax and Revenue Certificates of Obligation due in one annual installment of \$300,000 on August 15, 2009; interest varying between 5.00% and 5.75%	300,000
\$15,000,000 2000 General Obligation Bonds due in annual installments ranging from \$625,000 to \$650,000 through August 15, 2010; interest varying between 4.65% and 6.00%	1,275,000
\$15,000,000 2001 General Obligation Bonds due in annual installments ranging from \$650,000 to \$1,250,000 through August 15, 2023; interest varying between 3.70% and 5.375%	10,650,000
\$5,325,000 2003 Certificates of Obligation due in annual installments ranging from \$250,000 to \$415,000 through August 15, 2023; interest varying between 3.35% and 4.35%	4,845,000
\$9,915,000 2004 General Obligation Refunding Bonds due in annual installments ranging from \$105,000 to \$1,435,000 through August 15, 2021; interest varying between 1.70% and 4.35%	9,465,000
\$12,330,000 2005 General Obligation Refunding Bonds due in annual installments ranging from \$30,000 to \$2,235,000 through August 15, 2023; interest varying between 3.00% and 4.20%	12,330,000
\$14,120,000 2005 Certificates of Obligation due in annual installments ranging from \$200,000 to \$1,070,000 through August 15, 2026; interest varying between 3.00% and 5.00%	13,300,000
\$9,880,000 2006 Certificates of Obligation due in annual installments ranging from \$375,000 to \$730,000 through August 15, 2026; interest varying between 3.875% and 4.50%	9,575,000
\$9,995,000 2007 Certificates of Obligation due in annual installments ranging from \$230,000 to \$835,000 through August 15, 2027; interest varying between 4.00% and 4.50%	<u>9,955,000</u>
Total General Obligation Certificates and Bonds	<u>\$ 72,600,000</u>

The City issues general obligation certificates and bonds to provide funds for the construction of improvements to various City infrastructures and for the payment of related contractual obligations for professional services.

**NOTE 10: LONG-TERM DEBT - (Continued)**

B. General Obligation Certificates and Bonds - Primary Government - (Continued)

Annual debt service requirements to maturity for certificates of obligation and general obligation bonds are as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2009	\$ 3,805,000	\$ 3,057,924	\$ 6,862,924
2010	3,065,000	2,918,461	5,983,461
2011	3,195,000	2,796,171	5,991,171
2012	3,755,000	2,672,374	6,427,374
2013	3,895,000	2,526,349	6,421,349
2014-2018	22,000,000	10,119,788	32,119,788
2019-2023	24,600,000	5,308,501	29,908,501
2024-2027	8,285,000	845,838	9,130,838
	<u>\$ 72,600,000</u>	<u>\$ 30,245,406</u>	<u>\$ 102,845,406</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, \$56,304 of internal service funds' compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences are generally liquidated by the General Fund.

C. Revenue Bonds - Primary Government

Revenue bonds payable are comprised of the following individual issues:

\$21,925,000 1998 Utility System Revenue Bonds, Series 1998 due in annual installments ranging from \$950,000 to \$2,000,000 through December 1, 2022; interest varying between 4.75% and 5.60%	\$ 8,375,000
\$25,580,000 1999 Utility System Revenue Bonds Series 1999 due in annual installments ranging from \$910,000 to \$2,030,000 through December 1, 2020; interest varying between 2.75% and \$4.30%	20,735,000
\$20,045,000 2005 Utility System Revenue Refunding Bonds Series 2005 due in annual installments ranging from \$385,000 to \$2,205,000 through December 1, 2021; interest varying between 3.00% and \$5.00%	19,930,000
\$18,360,000 2007 Utility System Revenue Refunding Bonds Series 2007 due in annual installments ranging from \$580,000 to \$1,325,000 through December 1, 2027; interest varying between 4.00% and \$5.00%	<u>17,935,000</u>
Total Revenue Bonds	<u>\$ 66,975,000</u>

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**NOTE 10: LONG-TERM DEBT - (Continued)****C. Revenue Bonds - Primary Government - (Continued)**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2009	\$ 3,400,000	\$ 2,905,963	\$ 6,305,963
2010	3,535,000	2,769,958	6,304,958
2011	3,715,000	2,628,926	6,343,926
2012	3,860,000	2,478,546	6,338,546
2013	4,020,000	2,316,365	6,336,365
2014-2018	23,130,000	8,686,735	31,816,735
2019-2023	21,935,000	3,059,167	24,994,167
2024-2028	3,380,000	439,500	3,819,500
	<u>\$ 66,975,000</u>	<u>\$ 25,285,160</u>	<u>\$ 92,260,160</u>

The revenues of the Water and Wastewater Fund are pledged for the repayment of debt reported by the fund.

The revenue bond debt agreements contain certain requirements regarding the establishment and funding of an interest and sinking fund. In addition, the agreements provide that the City maintain a coverage ratio of at least 1.35 times the average annual debt service. The City complied in all aspects as of September 30, 2008.

**D. Revenue Bonds - Sales Tax Development Corporation**

Revenue bonds payable are comprised of the following individual issue:

\$8,395,000 2007 Sales Tax Revenue Bonds Series 2007 due in annual installments ranging from \$735,000 to \$1,025,000 through 2017; interest at 4.25%. \$ 7,860,000

The purpose of the bonds is for constructing, acquiring and equipping a sports venue project including the related infrastructure and professional services.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending September 30	Sales Tax Development Corporation		
	Principal	Interest	Total
2009	\$ 735,000	\$ 334,050	\$ 1,069,050
2010	765,000	302,813	1,067,813
2011	800,000	270,300	1,070,300
2012	830,000	236,300	1,066,300
2013	870,000	201,025	1,071,025
2014-2017	3,860,000	418,625	4,278,625
	<u>\$ 7,860,000</u>	<u>\$ 1,763,113</u>	<u>\$ 9,623,113</u>

The revenue bond debt agreements contain certain requirements regarding the establishment and funding of a debt service fund and a reserve fund. The Corporation complied in all respects as of September 30, 2008.

**E. Rebutable Arbitrage**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

**NOTE 11: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**A. Interfund Receivables and Payables**

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2008, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 341,671
Nonmajor Governmental	General	51,818
	Nonmajor Governmental	43
Nonmajor Business-type	Nonmajor Governmental	232,110
Internal Service	General	265,358
	Water and Wastewater	48,376
	Environmental Services	703,217
	Nonmajor Business-type	8,051
	Other Internal Service	<u>3,504</u>
		<u>\$ 1,654,148</u>

**B. Interfund Transfers**

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Business-type</u>	
General	\$ -	\$ 117,215	\$ 12,000	\$ 129,215
Nonmajor Governmental	-	-	837,791	837,791
Water and Wastewater	2,126,325	-	-	2,126,325
Environmental Services	356,300	-	-	356,300
Nonmajor Business-type	<u>41,417</u>	-	-	<u>41,417</u>
	<u>\$ 2,524,042</u>	<u>\$ 117,215</u>	<u>\$ 849,791</u>	<u>\$ 3,491,048</u>

**NOTE 12: RELATED PARTY TRANSACTIONS**

During fiscal year 2008, the Sales Tax Development Corporation, a discretely presented component unit of the City, contributed to the City \$2,876 in capital assets for the fiscal year ended September 30, 2008. The contribution consisted of \$2,876 in Water and Wastewater Fund assets. The Sales Tax Development Corporation also contributed \$4,000,000 to the City's major capital project funds during fiscal year 2008.

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**NOTE 13: PRIOR YEAR DEFEASANCE OF DEBT**

In prior years the City defeased certain general obligation bonds and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the bonds are not included in the City's financial statements. At September 30, 2008, \$47,765,000 of bonds outstanding is considered defeased.

**NOTE 14: COMMITMENTS AND CONTINGENCIES****Grant Programs**

The City participates in numerous state and federal 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 rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2008, 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 combined financial statements for such contingencies.

**NOTE 15: CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the useful life of the landfill. It is estimated that 48% of the landfill capacity has been used as of September 30, 2008. The estimated remaining useful life of the landfill at September 30, 2008, is 22 years.

The estimated liability for landfill closure and postclosure care costs has a balance of \$2,771,868 and \$2,671,551 as of September 30, 2008 and 2007, determined by calculating the lapsed portion of the landfill's life. It is estimated that an additional \$2,106,665 will be recognized as closure and postclosure care expense between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2030). However, the City anticipates a modification to the permit to increase allowable vertical height, which will result in extending the life of the landfill an additional 30-35 years. In addition, the City is in the process of acquiring additional land for future landfill cells, which will add life to the landfill of an additional 20-25 years. The estimated total current cost of the landfill closure and postclosure care (\$4,878,533) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2008. However, the actual cost of closure and postclosure care may be different due to inflation, changes in technology, or changes in landfill laws and regulations.

As of September 30, 2008, the City is in compliance with state and federal laws and regulations concerning "financial assurances". The City currently has a contract with Republic Waste Services of Texas, Ltd., which is currently operating the landfill for the City. As per the contract agreement, Republic Waste Services of Texas, Ltd. "will be responsible for completing, at its cost, closure of any area of the landfill in which new waste disposal cells are constructed by operator and which is filled to the final grades authorized in the permit by operator during the operating term." The City will be responsible for prior existing cells, and has established a closure/post-closure fund to accommodate those future liabilities.



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**NOTE 16: LITIGATION**

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

**NOTE 17: CONDUIT DEBT OBLIGATIONS**

The Guadalupe-Blanco River Authority (GBRA) contracted with the City in 1970 to provide wastewater treatment services through its *Victoria Regional Wastewater Reclamation Division*. The division operates and maintains two plants with a combined treatment capacity of 10.5 million gallons per day. The Highway 59 plant uses a complete mix activated sludge process. The waste sludge is dewatered by a belt press system and is hauled by division personnel to the City's sanitary landfill for proper disposal by Republic Waste Services of Texas, Ltd. The Willow Street plant utilizes a conventional trickling filter process, and transfers its waste sludge by truck to the Highway 59 plant for dewatering and disposal.

The Victoria Regional Wastewater Reclamation Division had total assets of \$6,934,627, total liabilities of \$4,301,883 and total equity of \$2,092,744 at August 31, 2008.

GBRA issued Contract Revenue Bonds in fiscal year 1996 for the City's Regional Wastewater Treatment System Project. These bond proceeds will be used to fund the expansion of the regional wastewater treatment system. As of August 31, 2008, there was \$990,000 of bonds outstanding. The City has agreed to cover operation, maintenance, and debt service costs of GBRA on an annual basis relating to this project. The City has no obligation beyond what has previously been described.

In September 1997, Warm Springs Rehabilitation Foundation issued \$4,000,000 in bonds using the name of Victoria Health Facilities Development Corporation in order to provide funding for a rehabilitation facility in Victoria, Texas. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the principal, interest, or any redemption premium of these bonds. The foundation will pay interest only on the bonds until the year 2027 when the entire principal will mature.

**NOTE 18: SUBSEQUENT EVENTS**

In October 2008, the City issued Utility System Revenue Bonds of \$6,555,000. The bonds are due in annual installments ranging from \$230,000 to \$505,000 through 2027 with interest varying from 4.00% to 5.00%. The proceeds from the sale of the bonds will be used to facilitate the City's capital improvement project program in order to acquire, construct, improve, enlarge or equip the City's combined waterworks and sewer system and to pay the costs of issuance of the bonds.

**CITY OF VICTORIA, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2008

With comparative totals for the year ended September 30, 2007

	2008			Variance Positive (Negative)	2007 Actual
	Original Budget	Final Budget	Actual		
<b>REVENUES</b>					
Taxes	\$ 30,236,497	\$ 30,236,497	\$ 30,574,663	\$ 338,166	\$ 29,547,282
Licenses and permits	601,899	601,899	787,190	185,291	727,532
Intergovernmental	2,300,248	2,300,248	2,746,477	446,229	1,866,972
Charges for services	1,626,600	1,626,600	1,764,291	137,691	1,697,048
Fines and forfeitures	1,266,000	1,266,000	1,165,607	(100,393)	1,290,817
Investment income	660,000	660,000	551,130	(108,870)	748,591
Miscellaneous	244,641	244,641	476,685	232,044	567,521
<b>Total revenues</b>	<b>36,935,885</b>	<b>36,935,885</b>	<b>38,066,043</b>	<b>1,130,158</b>	<b>36,445,763</b>
<b>EXPENDITURES</b>					
General government	5,210,972	5,518,055	4,997,289	520,766	4,442,001
Public safety	26,258,966	27,833,915	24,970,116	2,863,799	21,153,437
Highways and streets	5,775,788	7,246,429	4,961,785	2,284,644	4,882,077
Culture and recreation	6,206,530	6,492,205	5,568,554	923,651	4,493,109
<b>Total expenditures</b>	<b>43,452,256</b>	<b>47,090,604</b>	<b>40,497,744</b>	<b>6,592,860</b>	<b>34,970,624</b>
Excess (deficiency) of revenues over expenditures	(6,516,371)	(10,154,719)	(2,431,701)	7,723,018	1,475,139
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	2,524,042	2,524,042	2,524,042	-	2,775,035
Transfers out	(85,380)	(97,380)	(129,215)	(31,835)	(47,055)
<b>Total other financing sources (uses)</b>	<b>2,438,662</b>	<b>2,426,662</b>	<b>2,394,827</b>	<b>(31,835)</b>	<b>2,727,980</b>
Change in fund balance	(4,077,709)	(7,728,057)	(36,874)	7,691,183	4,203,119
Fund balance at beginning of year	14,883,402	14,883,402	14,883,402	-	10,680,283
<b>Fund balance at end of year</b>	<b>\$ 10,805,693</b>	<b>\$ 7,155,345</b>	<b>\$ 14,846,528</b>	<b>\$ 7,691,183</b>	<b>\$ 14,883,402</b>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF VICTORIA, TEXAS**

*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*

*September 30, 2008*

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**NOTE 1: BUDGETARY BASIS OF ACCOUNTING**

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.