

CITY OF CHANDLER, TEXAS
BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and OTHER INFORMATION
FISCAL YEAR ENDED SEPTEMBER 30, 2009

**GOLLOB MORGAN
PEDDY & CO., P.C.**
Certified Public Accountants

CITY OF CHANDLER, TEXAS

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Chandler, Texas
Chandler, Texas

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2010, on our consideration of the City of Chandler, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chandler, Texas' basic financial statements. The accompanying financial information listed as additional supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Chandler, Texas. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gollub, Morgan, Peddy & Co., P.C.

Certified Public Accountants

Tyler, Texas
March 9, 2010

Management's Discussion and Analysis

As management of the City of Chandler, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the Fiscal year ended September 30, 2009.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$7,109,668 (net assets). Of this amount \$940,245 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$1,119,953. Of this amount \$782,116 (69.83%) is available for spending at the government's discretion.
- The total net assets of \$7,109,668 are made up of \$5,659,890 in capital assets net of related debt and \$1,449,778 in other net assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

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

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

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. 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 all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Chandler that are principally supported by taxes and other governmental revenue (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 and streets and drainage. The business-type activities include water and sewer.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These 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 funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental fund is presented as a single aggregated presentation as it is considered a nonmajor governmental fund.

Proprietary funds. The City of Chandler maintains one type of proprietary fund – an enterprise fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its water and sewer operations and capital projects.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer as well as for the capital projects. A combination of the two funds was presented in the government-wide financial statements.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As of the end of the fiscal year, September 30, 2009, the City's assets exceeded liabilities by \$7,109,668.

By far the largest portion of the City's net assets (\$5,659,890) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire these assets that is still outstanding. 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. This amount increased by \$478,042 from the prior year primarily from construction costs on street projects and park projects. The amount of unrestricted net assets (\$996,139) decreased by \$55,894 from the prior year due to additional expenditures incurred during the current year.

City of Chandler's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 1,231,115	\$ 1,198,723	\$ 689,261	\$ 634,987	\$ 1,920,376	\$ 1,833,710
Capital assets	2,995,353	2,747,688	4,854,277	4,945,866	7,849,630	7,693,554
Total assets	4,226,468	3,946,411	5,543,538	5,580,853	9,770,006	9,527,264
Current liabilities	85,665	64,290	66,967	58,748	152,632	123,038
Noncurrent liabilities	14,706	35,735	2,493,000	2,595,000	2,507,706	2,630,735
Total liabilities	100,371	100,025	2,559,967	2,653,748	2,660,338	2,753,773
Net invested in capital assets	2,995,353	2,323,722	2,664,537	2,858,126	5,659,890	5,181,848
Restricted	337,838	446,732	171,695	148,772	509,533	595,504
Unrestricted	792,906	1,075,932	147,339	(79,793)	940,245	996,139
Total net assets	\$ 4,126,097	\$ 3,846,386	\$ 2,983,571	\$ 2,927,105	\$ 7,109,668	\$ 6,773,491

Governmental activities. Governmental activities increased net assets by \$279,711 during the year which is \$348,223 less than the prior year's increase which was primarily attributable to the reduction of transfers from business-type activities. The business-type activities resulted in a \$56,466 increase to net assets which is \$376,047 more than the prior year due to reduction of transfers.

City of Chandler's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Charges for services	\$ 957,864	\$ 759,539	\$ 764,628	\$ 758,781	\$1,722,492	\$1,518,320
Capital grants and contributions	-	39,612	-	-	-	39,612
General Revenue						
Property taxes	474,557	423,354	-	-	474,557	423,354
Franchise taxes	114,322	113,308	-	-	114,322	113,308
Sales and use taxes	426,793	418,480	-	-	426,793	418,480
Interest income	19,891	21,628	9,216	13,315	29,107	34,943
Other	-	-	-	7,800	-	7,800
Total revenue	1,993,427	1,775,921	773,844	779,896	2,767,271	2,555,817

Expenses						
General government	671,900	641,761	-	-	671,900	641,761
Public safety	655,090	542,741	-	-	655,090	542,741
Environmental and public service	95,359	85,637	-	-	95,359	85,637
Highways and streets	174,099	157,669	-	-	174,099	157,669
Parks and recreation	105,570	109,117	-	-	105,570	109,117
Interest	11,698	11,942	-	-	11,698	11,942
Water and sewer operations	-	-	717,378	698,597	717,378	698,597
Total expenses	1,713,716	1,548,867	717,378	698,597	2,431,094	2,247,464
Other						
Transfers	-	400,880	-	(400,880)	-	-
Change in net assets	279,711	627,934	56,466	(319,581)	336,177	308,353
Net assets, beginning of the year	3,846,386	3,218,452	2,927,105	3,246,686	6,773,491	6,465,138
Net assets, end of the year	\$ 4,126,097	\$ 3,846,386	\$ 2,983,571	\$ 2,927,105	\$ 7,109,668	\$ 6,773,491

Financial Analysis of the Government's Funds

As noted earlier, the City of Chandler 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 balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$1,119,953 of which \$782,116 is unrestricted and available for spending at the City's discretion. The remainder is reserved to indicate that it is not available for new spending because it has already been committed for future capital improvements.

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

Unrestricted net assets of the proprietary fund amounted to \$147,339. The total net assets increased by \$56,466 for the year.

General Fund Budgetary Highlights

Over the year, the City of Chandler did not make any revisions to its original budget. At the end of the year, revenues exceed the budgeted amount by \$204,980. These additional funds together with actual expenditures exceeding budgeted amounts by \$61,721 and GAAP adjustments of \$(27,044) resulted in an actual increase to fund balance of \$116,215 at year end.

Capital Assets and Debt Administration

Capital Assets. The City of Chandler's investment in capital assets for the governmental and business-type activities as of September 30, 2009, amounts to \$5,659,890 net of accumulated depreciation and related debt. This investment in capital assets includes land, buildings, machinery and equipment, water and sewer systems, infrastructure and construction in progress. The total increase in the City's investment in fixed assets for the current year (see note 4c) was \$156,076.

City of Chandler's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 197,400	\$ 197,400	\$ 108,962	\$ 108,962	\$ 306,362	\$ 306,362
Construction in progress	-	-	-	-	-	-
Buildings and improvements	491,919	321,571	-	-	491,919	321,571
Infrastructure	2,037,243	2,037,055	-	-	2,037,243	2,037,055
Machinery and equipment	268,791	191,662	21,569	27,030	290,360	218,692
Water and sewer system	-	-	4,723,746	4,809,874	4,723,746	4,809,874
Combined total	\$ 2,995,353	\$ 2,747,688	\$ 4,854,277	\$ 4,945,866	\$ 7,849,630	\$ 7,693,554

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total debt outstanding of \$2,507,706. Of this amount, \$2,493,000 comprises debt backed by revenue bonds, refunding bonds and certificates of obligation.

Several of the City's bonds are insured thus holding a Triple A rating from both Moody's and Standard & Poor's. Additional information on the City's long-term debt can be found in the footnotes to this financial report.

City of Chandler's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Capital leases	\$ -	\$ 23,086	\$ -	\$ -	\$ -	\$ 23,086
Compensated absences	14,706	12,649	-	-	14,706	12,649
Revenue bonds	-	-	2,493,000	2,595,000	2,493,000	2,595,000
Note payable	-	-	-	-	-	-
Combined total	\$ 14,706	\$ 35,735	\$ 2,493,000	\$ 2,595,000	\$ 2,507,706	\$ 2,630,735

Economic Factors and Next Year's Budgets and Rates

Economic trends in the area mirror those of Tyler, Texas that is located in a U. S. Census metropolitan economic region within commuting distance of most of the City's citizens. In the region, unemployment has risen due to the declining economy in the area that reflects that of the whole country.

The City strives to keep expenditures to a minimum. With controlled spending and use of reserves, the City should be able to absorb any unexpected inflationary price change such as fuel and power costs.

All of these factors were considered in preparing the City's budget for the 2010 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Chandler's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Chandler, Attn: City Secretary, P. O. Box 425, Chandler, TX 75758 or call 903-849-6853 or email skparmer@chandler.tx.com.

BASIC FINANCIAL STATEMENTS

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

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and certificates of deposit	\$ 1,035,691	\$ 325,926	\$ 1,361,617
Inventory	-	42,618	42,618
Receivables (net of allowance for doubtful accounts)	110,346	83,438	193,784
Internal balances	85,078	(85,078)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	171,695	171,695
Cash for construction	-	115,977	115,977
Bond issue costs (net)	-	34,685	34,685
Capital Assets (net of accumulated depreciation):			
Land	197,400	108,962	306,362
Buildings and improvements	491,919	-	491,919
Water and sewer system	-	4,723,746	4,723,746
Machinery and equipment	268,791	21,569	290,360
Infrastructure	2,037,243	-	2,037,243
Total Assets	4,226,468	5,543,538	9,770,006
LIABILITIES			
Accounts payable and accrued expenses	85,665	66,967	152,632
Non-current liabilities:			
Due within one year	1,471	103,000	104,471
Due in more than one year	13,235	2,390,000	2,403,235
Total Liabilities	100,371	2,559,967	2,660,338
NET ASSETS			
Investment in capital assets, net of related debt	2,995,353	2,664,537	5,659,890
Restricted for:			
Debt service	-	171,695	171,695
Future construction	337,838	-	337,838
Unrestricted	792,906	147,339	940,245
Total Net Assets	\$ 4,126,097	\$ 2,983,571	\$ 7,109,668

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
PROGRAM ACTIVITIES				
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 671,900	\$ 505,922	\$ (165,978)	\$ -
Public safety	655,090	449,392	(205,698)	-
Environmental and public service	95,359	-	(95,359)	-
Highways and streets	174,099	-	(174,099)	-
Parks and recreation	105,570	2,550	(103,020)	-
Interest and fees	11,698	-	(11,698)	-
Total governmental activities	1,713,716	957,864	(755,852)	-
Business-type activities:				
Water and sewer	717,378	764,628	-	47,250
Total business-type activities	717,378	764,628	-	47,250
Total primary government	\$ 2,431,094	\$ 1,722,492	(755,852)	47,250
General revenues:				
Property taxes			474,557	-
Franchise taxes			114,322	-
Sales and use taxes			426,793	-
Interest income			19,891	9,216
Total general revenues			1,035,563	9,216
Change in net assets			279,711	56,466
Net assets - beginning of year			3,846,386	2,927,105
Net assets - end of year			\$ 4,126,097	\$ 2,983,571
				\$ 7,109,668

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Certificates of Deposit	\$ 722,956	\$ 312,735	\$ 1,035,691
Receivables:			
Sales Tax Receivable	50,203	25,102	75,305
Trash Services Receivable	24,249	-	24,249
Property Tax Receivable (net of allowance for estimated uncollectibles)	10,791	-	10,791
Due from Other Funds	85,078	-	85,078
 Total Assets	 <u>\$ 893,277</u>	 <u>\$ 337,837</u>	 <u>\$ 1,231,114</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 85,665	\$ -	\$ 85,665
Accrued Compensated Absences	14,706	-	14,706
Deferred Revenue	10,791	-	10,791
 Total Liabilities	 <u>111,162</u>	 <u>-</u>	 <u>111,162</u>
Fund Balances:			
Reserved for:			
Capital Improvements	-	337,837	337,837
Total Reserved Fund Balances	-	337,837	337,837
Unreserved:			
Undesignated	782,116	-	782,116
Total Undesignated Fund Balances	782,116	-	782,116
 Total Fund Balances	 <u>782,116</u>	 <u>337,837</u>	 <u>1,119,953</u>
 Total Liabilities and Fund Balances	 <u>\$ 893,278</u>	 <u>\$ 337,837</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 1)

	Total Governmental Funds
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 1,119,953
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	2,995,353
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u>10,791</u>
Net Assets of governmental activities	<u><u>\$ 4,126,097</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2009

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property taxes	\$ 472,918	\$ -	\$ 472,918
Sales tax	320,021	106,772	426,793
Franchise tax	114,322	-	114,322
Fines	449,392	-	449,392
Licenses and permits	11,265	-	11,265
Little league fees	2,550	-	2,550
Subdivision fees	112	-	112
Interest	11,832	8,059	19,891
Rents	6,387	-	6,387
Expense reimbursements	78,455	-	78,455
Miscellaneous	101,679	1,056	102,735
Trash and tax collection	294,368	-	294,368
Lease income	12,600	-	12,600
	<u>1,875,901</u>	<u>115,887</u>	<u>1,991,788</u>
Total Revenues			
	<u>1,875,901</u>	<u>115,887</u>	<u>1,991,788</u>
EXPENDITURES			
General government	632,903	14,265	647,168
Public safety	391,416	-	391,416
Municipal court	239,406	-	239,406
Environmental and public service	94,579	-	94,579
Highways and streets	47,317	-	47,317
Parks and recreation	68,798	-	68,798
Capital improvements	250,484	210,517	461,001
Debt service - principal	23,085	-	23,085
Debt service - interest	1,570	-	1,570
Appraisal and collection fees	10,128	-	10,128
	<u>1,759,686</u>	<u>224,782</u>	<u>1,984,468</u>
Total Expenditures			
	<u>1,759,686</u>	<u>224,782</u>	<u>1,984,468</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>116,215</u>	<u>(108,895)</u>	<u>7,320</u>
Net Change in Fund Balances	<u>116,215</u>	<u>(108,895)</u>	<u>7,320</u>
Fund Balance, October 1, 2008	<u>665,901</u>	<u>446,732</u>	<u>1,112,633</u>
Fund Balance, September 30, 2009	<u>\$ 782,116</u>	<u>\$ 337,837</u>	<u>\$ 1,119,953</u>

The notes to the financial statements are an integral part of this statement.

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

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$	7,320
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		247,665
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,640
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		23,086
Change in net assets of governmental activities	\$	279,711

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2009

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Property taxes	\$ 471,892	\$ 471,892	\$ 472,918	\$ 1,026
Sales tax	327,000	327,000	319,437	(7,563)
Franchise tax	112,500	112,500	114,322	1,822
Fines	325,800	325,800	449,392	123,592
Licenses and permits	17,000	17,000	11,265	(5,735)
Little league fees	3,700	3,700	2,550	(1,150)
Winchester park	1,500	1,500	-	(1,500)
Subdivision fees	5,000	5,000	112	(4,888)
Interest	14,797	14,797	11,832	(2,965)
Rents	6,300	6,300	6,387	87
Expense reimbursements	40,000	40,000	78,455	38,455
Miscellaneous	42,617	42,617	101,679	59,062
Trash and tax collection	290,000	290,000	294,737	4,737
Lease income	12,600	12,600	12,600	-
Total Revenues	<u>1,670,706</u>	<u>1,670,706</u>	<u>1,875,686</u>	<u>204,980</u>
EXPENDITURES				
General government	634,889	634,889	681,080	(46,191)
Public safety	453,790	453,790	441,945	11,845
Municipal court	193,849	193,849	218,381	(24,532)
Environmental and public service	87,570	87,570	90,172	(2,602)
Highways and streets	174,988	174,988	170,281	4,707
Parks and recreation	93,565	93,565	95,785	(2,220)
Debt service - principal	23,085	23,085	23,085	-
Debt service - interest	1,570	1,570	1,570	-
Appraisal and collection fees	7,400	7,400	10,128	(2,728)
Total Expenditures	<u>1,670,706</u>	<u>1,670,706</u>	<u>1,732,427</u>	<u>(61,721)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - Budget Basis	-	-	143,259	143,259
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	<u>(27,044)</u>	<u>(27,044)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - GAAP Basis	-	-	<u>116,215</u>	<u>116,215</u>
Net Change in Fund Balances	-	-	116,215	116,215
Fund Balance, October 1, 2008	-	-	<u>665,901</u>	<u>665,901</u>
Fund Balance, September 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 782,116</u>	<u>\$ 782,116</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2009

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP

Basis Presentation:

Sources/Inflows of Resources:

Differences - Budget to GAAP

Increase in accrued sales taxes \$ 584

Decrease in accrued revenues on charges for services (369)

Total Sources/Inflows of Resources 215

Uses/Outflows of Resources:

Differences - Budget to GAAP

Increase in accrued expenses (27,259)

Total Uses/Outflows of Resources (27,259)

Net Change in Budget Basis Presentation and GAAP Basis Presentation \$ (27,044)

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009**

	<u>BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND OPERATING FUND</u>
ASSETS	
Current Assets:	
Cash and certificates of deposit	\$ 325,926
Inventory	42,618
Accounts receivable (Net)	<u>83,438</u>
Total Current Assets	<u>451,982</u>
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	171,695
Cash for construction	<u>115,977</u>
Total Restricted Assets	<u>287,672</u>
Bond Issue Costs (Net)	34,685
Capital Assets:	
Land	108,962
Water and sewer system	6,167,370
Machinery & equipment	58,641
Less: Accumulated depreciation	<u>(1,480,696)</u>
Total Capital Assets Net Of Accumulated Depreciation	<u>4,854,277</u>
Total Assets	5,628,616
LIABILITIES	
Current Liabilities:	
Accounts payable	18,962
Accrued interest	48,005
Due to other funds	85,078
Revenue bonds payable	<u>103,000</u>
Total Current Liabilities	<u>255,045</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>2,390,000</u>
Total Liabilities	<u>2,645,045</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,664,537
Restricted for debt service	171,695
Unrestricted	<u>147,339</u>
Total Net Assets	<u>\$ 2,983,571</u>

The notes to the financial statements are an integral part of this statement.

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

	BUSINESS-TYPE ACTIVITIES
	<u>ENTERPRISE FUND</u>
	<u>OPERATING</u>
	<u>FUND</u>
OPERATING REVENUES	
Water sales and sewer service	\$ 687,205
Charges for services	<u>77,423</u>
Total Operating Revenues	<u>764,628</u>
OPERATING EXPENSES	
Water and sewer operations	472,768
Depreciation	<u>133,203</u>
Total Operating Expenses	<u>605,971</u>
Operating Income (Loss)	<u>158,657</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(106,756)
Amortization of bond issue costs	(4,651)
Interest income	<u>9,216</u>
Total Non-Operating Revenues (Expenses)	<u>(102,191)</u>
Change in Net Assets	56,466
Net Assets, October 1, 2008	<u>2,927,105</u>
Net Assets, September 30, 2009	<u>\$ 2,983,571</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2009**

Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 745,233
Cash paid to suppliers for goods and services	(426,320)
Cash paid to employees for services	(38,000)
	280,913
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset purchases	(41,614)
Interest paid	(108,868)
Principal paid on bonds	(102,000)
	(252,482)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	9,216
	9,216
Net increase in cash	37,647
Cash, beginning of period	575,951
Cash, end of period	\$ 613,598
Reconciliation of Cash on Exhibit 7:	
Cash and certificates of deposit	\$ 325,926
Cash - restricted assets	287,672
	\$ 613,598
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:	
Operating income (loss)	\$ 158,657
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	133,203
Increase in accounts receivable	(15,363)
Increase in inventory	(1,883)
Increase in due to other funds	(4,033)
Increase in accounts payable	10,332
	122,256
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 280,913

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Chandler, Texas (the "City") was incorporated on January 9, 1913, under the provisions of the State of Texas. The City operates under a council form of government and provides the following services as authorized by its charter: public safety (police), streets, health and social services, culture, recreation, public improvements, planning, general administrative services, and utilities operations.

The accounting policies of the City of Chandler, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

B. The Reporting Entity

These financial statements present all of the funds of the City.

The financial statements of the City of Chandler, Texas include all funds and account groups and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency. In determining the financial reporting entity, the City complies with the provisions of Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The Chandler Area Economic Development Corporation, Inc. was formed in 1998, and is governed by a nine-member board of directors, which includes the City's council members. For financial reporting purposes, the Chandler Area Economic Development Corporation, Inc. has been presented as a blended component unit of the City and is reported as a Capital Projects Fund, because its purpose is to account for construction activities funded by the revenues generated by the one-half cent sales tax. The Chandler Area Economic Development Corporation, Inc. does not issue separate financial statements.

Health Facilities Development Corporations

The Chandler Health Facilities Development Corporation and the Rusk County Health Facilities Corporation are public non-profit health facilities development corporations. The Corporations were created pursuant to the provisions of the Health Facilities Development Act. The purpose of the Corporations is to provide health facilities for the promotion and development of health care, research, and education for the public purpose of promoting the health and welfare of the City's residents and the citizens of the State of Texas and to issue bonds on its behalf to finance the cost of health facilities. The Corporations are designated as duly constituted authorities and instrumentalities of the City existing and acting on behalf of, but separate and apart from the City. The City has issued revenue bonds on behalf of these Corporations for the purpose of expanding existing health facilities. The City is not liable for any of the obligations of the Corporations or bound by any actions or proceedings of the Corporations except as may be specifically assumed by the City Council and, accordingly, these obligations are not reported as liabilities in the City's general purpose financial statements. The City has appointed the current Board of Directors, which consists of five persons. The positive response to this particular criteria does not constitute sufficient control to include the Corporations as component units of the City because the corporations are autonomous entities.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

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. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. 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 financial statements. 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government'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 Economic Development Fund is used to account for the use of the one-half cent sales tax proceeds for capital improvement projects of the City.

The government reports the following major proprietary fund:

The Water and Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers.

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 the Governmental Accounting Standards Board. 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 government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City 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 include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents – the City considers all cash in demand deposit accounts and petty cash accounts to be cash and cash equivalents.
2. 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 either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds:” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported 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”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible.

The City provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account, as determined by experience.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

3. Due from Other Funds

Current portions of long-term interfund loans receivable (reported in “Due from” asset accounts) are considered “available spendable resources”.

4. Inventory – is stated at cost using the first in/first out method. Quantities are determined by physical counts made at year end.
5. Capital Assets – includes property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated 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 asset lives are not capitalized.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20
Machinery and equipment	5
Infrastructure	20
Police vehicles	3

6. Construction in progress – Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset account as the projects are completed.
7. Bond issue costs – Bond issue costs are amortized over the life of the bonds under the effective interest method and straight line method.
8. Fund equity – Reserves of fund balance are used to indicate that a portion of fund equity is not available for expenditure or is legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.
9. Net Assets – Represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of the City’s capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Net assets reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations.
10. Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A.** Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets - One element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$2,995,353 difference are as follows:

Capital assets, October 1, 2008, net of accumulated depreciation	\$2,747,688
Capital asset additions, net of retirements	461,001
Depreciation of capital assets, current year	<u>(213,336)</u>
	<u>\$2,995,353</u>

- B.** Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities - One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated to their estimated useful lives and reported as depreciation expense.” The detail of this \$247,665 difference are as follows:

Capital outlay, asset additions, net of retirements	\$461,001
Depreciation expense	<u>(213,336)</u>
	<u>\$247,665</u>

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. The budget for the General Fund is adopted essentially on the cash basis. The budgetary comparisons for this fund are on this non-GAAP budgetary basis.
2. Appropriations lapse at year end.
3. Encumbrance accounting is not used.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2009, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 264,612	\$ 264,612
Collateral held by pledging bank's Trust Department in City's name	<u>1,384,102</u>	<u>1,412,907</u>
Total Deposits	1,648,714	1,677,519
Petty Cash on hand	<u>575</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 1,649,289</u>	<u>\$ 1,677,519</u>

Interest Rate Risk – The City's investment policy allows for investments in certificates of deposit and money market funds to be made in order to achieve the highest return of interest on excess cash.

B. Receivables

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Water & Sewer Fund</u>	<u>Total</u>
Receivables:				
Taxes	\$ 17,347	\$ -	\$ -	\$ 17,347
Sales Tax	50,203	25,102	-	75,305
Accounts (services)	<u>24,249</u>	<u>-</u>	<u>94,638</u>	<u>118,887</u>
Gross Receivables	91,799	25,102	94,638	211,539
Less: Allowance for Uncollectibles	<u>(6,556)</u>	<u>-</u>	<u>(11,200)</u>	<u>(17,756)</u>
Net Receivables	<u>\$ 85,243</u>	<u>\$ 25,102</u>	<u>\$ 83,438</u>	<u>\$193,783</u>

C. Capital Assets

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

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 197,400	\$ -	\$ -	\$ 197,400
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>197,400</u>	<u>-</u>	<u>-</u>	<u>197,400</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	928,838	226,360	-	1,155,198
Infrastructure	2,417,464	123,113	-	2,540,577
Machinery and Equipment	582,527	111,528	-	694,055
Total Capital Assets, Being Depreciated	<u>3,928,829</u>	<u>461,001</u>	<u>-</u>	<u>4,389,830</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(607,267)	(56,012)	-	(663,279)
Infrastructure	(380,409)	(122,925)	-	(503,334)
Machinery and Equipment	(390,865)	(34,399)	-	(425,264)
Total Accumulated Depreciation	<u>(1,378,541)</u>	<u>(213,336)</u>	<u>-</u>	<u>(1,591,877)</u>
Net Total Assets Being Depreciated	<u>2,550,288</u>	<u>247,665</u>	<u>-</u>	<u>2,797,953</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,747,688</u>	<u>\$ 247,665</u>	<u>\$ -</u>	<u>\$ 2,995,353</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 108,962.00	\$ -	\$ -	\$ 108,962
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>108,962</u>	<u>-</u>	<u>-</u>	<u>108,962</u>
Capital Assets, Being Depreciated:				
Water and Sewer System	6,125,756	41,614	-	6,167,370
Machinery and Equipment	58,641	-	-	58,641
Total Capital Assets, Being Depreciated	<u>6,184,397</u>	<u>41,614</u>	<u>-</u>	<u>6,226,011</u>
Less Accumulated Depreciation For:				
Water and Sewer System	(1,315,882)	(127,742)	-	(1,443,624)
Machinery and Equipment	(31,611)	(5,461)	-	(37,072)
Total Accumulated Depreciation	<u>(1,347,493)</u>	<u>(133,203)</u>	<u>-</u>	<u>(1,480,696)</u>
Net Total Assets Being Depreciated	<u>4,836,904</u>	<u>(91,589)</u>	<u>-</u>	<u>4,745,315</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,945,866</u>	<u>\$ (91,589)</u>	<u>\$ -</u>	<u>\$ 4,854,277</u>

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

Governmental Activities:	
General Government	\$24,734
Public Safety	24,268
Environmental and Public Service	780
Parks and Recreation	36,772
Highways and Streets	<u>126,782</u>
Total depreciation expense, governmental activities	<u>\$213,336</u>
Business-Type Activities:	
Water, Sewer and Sanitation Operations	<u>\$133,203</u>

D. Leases

Operating Leases

Effective March 15, 2005, the City entered into a 10-year agreement to lease land to Alltel Communications, formerly Sprint Cellular, for a communications tower site. Effective August 14, 2007, the lease agreement was amended. The lease term was extended with Alltel Communications having the option to extend the agreement for each of four additional five year terms. Commencing on March 15, 2008, the rent will increase to \$9,000 per year. On March 15, 2015 and on each March 15th thereafter, rent shall increase by an amount equal to 3% of the rent payable for the year immediately preceding such increase. During the year ended September 30, 2009, the City received \$9,000 in rent under this agreement.

Future rentals to be earned by the City under this agreement are as follows:

<u>Year</u>	<u>Amount</u>
<u>Ended</u>	
2010	\$ 9,000
2011	9,000
2012	9,000
2013	9,000
2014	9,000
2015-2019	49,216
2020-2024	57,054
2025-2029	66,142
2030-2034	76,676
2035-2036	<u>33,988</u>
TOTAL	<u>\$ 328,076</u>

The City also entered into a lease agreement to rent a piece of property for a monthly amount of \$600. Effective April 10, 2007, this lease agreement was amended and the rent was increased to \$650 per month. The City will sublease a portion of this property to an organization for \$300 per month. Under these two agreements, the City paid \$7,800 in rent and received \$3,600 in rent during the year ended September 30, 2009.

E. Long-term debt

Revenue Bonds and Certificates of Obligation

The government has issued bonds where the government pledges tax revenue and income derived from the acquired or constructed assets to pay debt service. The bonds issued by the City in prior years were to fund construction projects to improve or expand the water and sewer system. Income derived from the sale of water will be used to service the debt requirements. In prior years, the City issued refunding bonds to refinance a portion of its old bonds and the City also issued certificates of obligation to pay for wastewater system and street improvements.

Revenue bonds outstanding are as follows:

<u>Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Series – 1982	Water & Wastewater Improvements	5.00%	\$ 28,000
Series – 2006	Refunding Issue	4.90%	625,000
Series – 2006	Certificate of Obligation	4.90%	<u>1,840,000</u>

Total Outstanding Revenue Bonds and Certificates of Obligation \$2,493,000

The respective bond ordinances of the issues listed above require the following of the City: (a) creation of an interest and sinking fund for each issue; (b) establish a minimum balance to be held by each issue in order to pay the next interest and sinking requirement due; and (c) maintain tax revenue and net income from the City's water and sewer system sufficient to meet annual debt service requirement for all bond issues before the passage of a resolution authorizing the issuance of any new obligations.

As of September 30, 2009, the City was in compliance with all of its bond ordinances.

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 103,000	\$ 104,683
2011	110,000	100,141
2012	115,000	95,532
2013	115,000	90,714
2014	120,000	85,895
2015-2019	690,000	348,818
2020-2024	845,000	191,902
2025-2026	<u>395,000</u>	<u>24,930</u>
Total	<u>\$2,493,000</u>	<u>\$1,042,615</u>

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2009 be disclosed.

<u>ANNUAL PREMIUM</u>	<u>POLICY NO.</u>	<u>NATURE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>POLICY PERIOD</u>
\$ 13,642	#H5490-01	Workers Compensation	Statutory Limits	10-1-08 - 10-1-09
\$ 13,416	#NYA803565	Liability General	\$1,000,000/ occurrence	10-1-08 - 10-1-09
		Auto and Law Enforcement	\$1,000,000/occurrence	
		Property: Real & Personal & Mobile Equipment	\$2,510,252	10-1-08 - 10-1-09
		Boiler & Machinery	\$100,000/ accident	10-1-08 - 10-1-09
\$ 3,414	#NYA812114	Errors & Omissions	\$1,000,000	10-1-08 - 10-1-09

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2009 was as follows:

	Beginning Balance 10/1/2008	Additions	Reductions	Ending Balance 9/30/2009	Due Within One Year
Governmental Activities:					
Capital Leases	\$ 23,085	\$ -	\$ 23,085	\$ -	\$ -
Compensated Absences	<u>12,649</u>	<u>2,057</u>	<u>-</u>	<u>14,706</u>	<u>1,471</u>
Governmental Activity					
Long-Term Liabilities	<u>\$ 35,734</u>	<u>\$ 2,057</u>	<u>\$ 23,085</u>	<u>\$ 14,706</u>	<u>\$ 1,471</u>
Business-Type Activities:					
Revenue Bonds	<u>\$ 2,595,000</u>	<u>\$ -</u>	<u>\$ 102,000</u>	<u>\$ 2,493,000</u>	<u>\$ 103,000</u>
Business-Type Activity					
Long-Term Liabilities	<u>\$ 2,595,000</u>	<u>\$ -</u>	<u>\$ 102,000</u>	<u>\$ 2,493,000</u>	<u>\$ 103,000</u>

NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK

The City provides water and sewer services as well as solid waste collection and disposal services to its residents. Residents use the City's water and sewer system and the solid waste collection services and are billed each month for usage in the prior month. The credit granted by the City for usage of these services is all with residents of the City. As of September 30, 2009, the City had \$83,438 in net receivables from its residents for the usage of these services.

NOTE 6 — RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance and insurance with the Texas Municipal League (TML), a public entity risk pool for municipalities. The City pays premiums in monthly installments for this coverage. As of September 30, 2009, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2009, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years which exceeded insurance coverage carried by the City.

NOTE 7 — COMMITMENTS

The City has a contract with the Chandler Volunteer Fire Department in which it makes an annual contribution of \$30,000 in exchange for fire protection for residents of the City. During the year ended September 30, 2009, the City paid \$30,000 under this contract.

The City has a contract with its water superintendent for meter reading services. This contract, which calls for the City to pay \$11.50 per meter read each month, is for a three-year period beginning September 30, 2008 and ending on September 30, 2011.

The City has a contract with the BMC Boys Baseball and the East Texas Girls Softball Leagues to lease the concession operation at Winchester Park. Under the agreement, the lessee will pay the City the first \$10,000 made on concession sales, with the funds to be used by the City for park projects. Revenues received under this agreement during the year ended September 30, 2009 were \$10,000.

The City has a contract with Sanitation Solutions for solid waste collection and disposal services for the residents of the City. The contract began May 1, 2007 and is effective until September 30, 2012. The City paid \$184,204 under this contract as of September 30, 2009.

NOTE 8 – EMPLOYEES’ PENSION PLAN OBLIGATIONS

Plan Description

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

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

	<u>Plan Year 2009</u>
Employee deposit rate	5.0%
Matching ratio (city to employee)	1 to 1
Year required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 58,089
Interest on Net Pension Obligation	-
Adjustment to the ARC	<u>-</u>
Annual Pension Cost (APC)	58,089
Contribution Made	<u>58,089</u>
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	<u>-</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ -</u></u>

Three Year Trend

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
9/30/2009	\$ 53,139	\$ 53,139	100%	\$ -

General System-wide Actuarial Assumptions

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2008 actuarial valuations. Information as of the latest actuarial valuation, December 31, 2008, follows:

Valuation Date	<u>12/31/2008</u>
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24 years; closed period
Asset Valuation Method	Amortized Cost
Actuarial Assumptions:	
Investment Rate of Return*	7.5%
Projected Salary Increases*	Varies by age and service
*Includes Inflation at	3.00%
Cost-of-Living Adjustments	N/A

Funding Status and Funding Progress

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ 13,275	\$ 258,531	5.1%	\$ 245,256	\$ 451,632	54.3%

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2009, expenditures exceeded appropriations in the General Government department of the General Fund by \$46,191, Municipal Court department by \$24,532, Environmental and Public Service department by \$2,602, Parks and Recreation department by \$2,220, and in Appraisal and Collection Fees by \$2,728. These overexpenditures were funded by greater than anticipated revenues and available fund balance in the General Fund.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2009

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES				
General government	\$ 634,889	\$ 634,889	\$ 681,080	\$ (46,191)
Public safety	478,445	478,445	466,600	11,845
Municipal court	193,849	193,849	218,381	(24,532)
Environmental and public service	87,570	87,570	90,172	(2,602)
Highways and streets	174,988	174,988	170,281	4,707
Parks and recreation	93,565	93,565	95,785	(2,220)
Interest and fees	7,400	7,400	10,128	(2,728)
Total Expenditures - Budget Basis	<u>\$ 1,670,706</u>	<u>\$ 1,670,706</u>	1,732,427	<u>\$ (61,721)</u>
Financial Statement Adjustments:				
Increase in accrued expenses			<u>27,259</u>	
TOTAL EXPENDITURES - GAAP BASIS			<u>\$ 1,759,686</u>	

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2009

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<u>REVENUES</u>				
Water and sewer service	\$ 675,100	\$ 675,100	\$ 668,827	\$ (6,273)
Interest income	10,250	10,250	9,216	(1,034)
Water connections	7,000	7,000	3,000	(4,000)
Sewer connections	6,000	6,000	3,000	(3,000)
Initial turn on	5,000	5,000	5,925	925
Reconnection fees	1,500	1,500	2,125	625
Pump truck dumping	53,000	53,000	61,013	8,013
Miscellaneous	<u>200</u>	<u>200</u>	<u>1,626</u>	<u>1,426</u>
Total Revenues - Budget Basis	<u>\$ 758,050</u>	<u>\$ 758,050</u>	754,732	<u>\$ (3,318)</u>
Financial Statement Adjustments:				
Increase in accrued revenues for water and sewer service			<u>19,112</u>	
TOTAL REVENUES - GAAP BASIS			<u>\$ 773,844</u>	

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2009

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<u>EXPENSES</u>				
Contract services	\$ 183,975	\$ 183,975	\$ 179,453	\$ 4,522
Material and supplies	145,000	145,000	165,772	(20,772)
Personnel services	40,000	40,000	38,000	2,000
Other expenses	65,160	65,160	60,738	4,422
Bond principal	102,000	102,000	102,000	-
Bond interest and fees	110,976	110,976	108,868	2,108
Capital improvements	<u>488,250</u>	<u>488,250</u>	<u>61,972</u>	<u>426,278</u>
Total Expenses - Budget Basis	<u>\$ 1,135,361</u>	<u>\$ 1,135,361</u>	716,803	<u>\$ 418,558</u>
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(102,000)	
Increase in accrued expenses			6,335	
Expenses reclassified as capital assets			(41,614)	
Amortization of bond issue costs			4,651	
Depreciation			<u>133,203</u>	
 TOTAL EXPENSES - GAAP BASIS			 <u>\$ 717,378</u>	

OTHER REPORTS

Michael Gollob, CPA-Retired
Tony K. Morgan, CPA/ABV
Robert W. Peddy, CPA
Barbara R. Bass, CPA
Tommy J. Chambers, CPA
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Melissa J. Carnes, CPA
Michael Jason Creel, CPA
Tina T. Smith, CPA

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

To the City Council
City of Chandler, Texas

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Chandler, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City of Chandler, Texas' basic financial statements and have issued our report thereon dated March 9, 2010 . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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

Depreciation Expense

Effective internal control over financial reporting involves the identification and analysis of the risk of material misstatements to the City's audited financial statements. Management has not developed policies and procedures to compute, review, and record depreciation expense. As a result of these policies and procedures

not being developed, material adjustments were necessary to record depreciation expense in the financial statements.

Preparing Financial Statements

Effective internal control over financial reporting involves identification and analysis of the risk of material misstatements to the City's audited financial statements. Controls should also determine how those identified risks should be managed. Management has not identified risks to the preparation of reliable financial statements and as a result has not designed effective controls over the preparation of the financial statements to prevent or detect material misstatements, including footnote disclosures. The City relies on its auditors to prepare its financial statements and footnote disclosures. The auditors can not be part of the City's internal controls over financial reporting.

Compliance and Other Matters

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

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

Gallot, Morgan, Paddy & Co., P.C.

Certified Public Accountants

Tyler, Texas
March 9, 2010