

CITY OF LINDALE, TEXAS

**BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and
OTHER INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2008

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

CITY OF LINDALE, TEXAS

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INDEPENDENT AUDITORS' REPORT

City Council
City of Lindale, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindale, Texas 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 of Lindale, 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 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 Lindale, Texas 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2009 on our consideration of the City of Lindale, 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 (MD&A) is not a required part of the basic financial statements, but is 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 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 Lindale, 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. The additional financial 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.

Goldberg Morgan Peddy & Co., P.C.

Certified Public Accountants

Tyler, Texas
March 17, 2009

City Of Lindale
Management's Discussion and Analysis
For the Year Ended September 30, 2008

As management of the City of Lindale, 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, 2008.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$16,647,057 (net assets). These net assets are made up of \$10,824,933 in capital assets net of related debt, \$1,608,757 set aside for capital improvements, \$882,893 restricted to meet the City's ongoing debt obligations to creditors, \$223,855 restricted for parks, and \$3,106,619 unrestricted, available resources.
- At the close of the current fiscal year, the City of Lindale's governmental funds reported a combined ending fund balance of \$6,005,545. Of the balance, \$3,870,983 is undesignated and available by the City's designation and policies.
- At the end of the current fiscal year, undesignated fund balance in the general fund was \$442,588 that represents 13.4% of the total 2008 general fund expenditures.
- The City's total non-current liabilities decreased to \$17,613,818. That is a \$666,312 decrease over the prior year 2007 balance of \$18,280,130. The decrease from 2008 to 2007 is due to no new loans being taken out in 2008 and principal payments being applied.

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*. This is the fifth year that the City is reporting using the new reporting model.

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 Lindale'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 Lindale 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, streets and drainage, parks and recreation and economic development. The business-type activities include water and sewer, emergency medical service and construction.

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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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 four major governmental funds – general, economic development, capital projects, and debt service. 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 these funds,

which are considered to be major funds. Data from the other governmental funds is presented as a single aggregated presentation as these funds are considered nonmajor governmental funds.

Proprietary funds. The City of Lindale maintains several types of proprietary funds within the 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, capital improvements and nonmajor enterprise activities.

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 and the capital improvement. A combination of these funds is 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.

Other information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplemental information concerning the City's budget and actual expenditures. In addition to the supplemental budget information, non-major fund information is presented for the governmental funds and business type activities.

Government-wide Financial Analysis

The government-wide statement of net assets displays the assets, liabilities and net assets broken down between governmental and business-type activities. Assets and liabilities are shown as either current or noncurrent. Current designation presumes that the transaction will become cash or consume cash within one fiscal year. Noncurrent assets and liabilities are long-term in nature.

As noted earlier, net assets, over time, may serve as a useful indicator of the City's financial position. At the end of the fiscal year September 30, 2008, the City's assets exceeded liabilities by \$16,647,057. This amount is greater than the 2007 balance of \$15,811,803. By far the largest portion of the City's net assets is the \$10,824,933 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 2008 investment in capital assets is greater than the prior years due to improvements and extensions to the water and sewer system together with other infrastructure projects. The 2008 investment in capital assets was greater than the 2007 \$9,676,105 total. The City uses 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.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 6,616,362	\$ 7,493,176	\$1,120,570	\$ 1,110,719	\$ 7,736,932	\$ 8,603,895
Capital assets	13,234,662	12,899,239	13,916,363	13,121,185	27,151,025	26,020,424
Total assets	19,851,024	20,392,415	15,036,933	14,231,904	34,887,957	34,624,319
Current liabilities	287,022	309,112	340,060	223,274	627,082	532,386
Noncurrent liabilities	17,482,424	18,131,547	131,394	148,583	17,613,818	18,280,130
Total liabilities	17,769,446	18,440,659	471,454	371,857	18,240,900	18,812,516
Net invested in capital	-3,085,030	-3,408,152	13,909,963	13,084,257	10,824,933	9,676,105
Restricted	2,134,562	2,889,893	580,943	720,951	2,715,505	3,610,844
Unrestricted	3,032,046	2,470,015	74,573	54,839	3,106,619	2,524,854
Total net assets	\$ 2,081,578	\$ 1,951,756	\$14,565,479	\$ 13,860,047	\$ 16,647,057	\$ 15,811,803

Governmental activities. Consistent with the preceding governmental net assets, this is the fifth year to report governmental activities under the new reporting standard GASB No. 34. Increased charges for services and decreased transfers resulted in the government activities adding \$129,822 to the governmental activities net assets in fiscal year 2008, which decreased in fiscal year 2007 by \$1,024,963.

City of Lindale's Change in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues						
Charges for services	\$1,223,579	\$ 1,040,187	\$1,742,012	\$ 1,479,722	\$2,965,591	\$ 2,519,909
Operating Grants and contribution	10,163	7,770			10,163	7,770
Capital grants and contribution			228,696	21,304	228,696	21,304
General revenue						
Property taxes	1,713,072	1,511,572			1,713,072	1,511,572
Franchise taxes	269,371	256,747			269,371	256,747
Sales and use taxes	2,216,963	1,819,769			2,216,963	1,819,769
Interest income	278,079	446,577	18,201	55,058	296,280	501,635
Sale of lots	23,200	18,700			23,200	18,700
Other	-	5,464	-	47,044	-	52,508
Transfers	(774,764)	(1,687,316)	774,764	1,687,316	-	-
Total revenue	4,959,663	3,419,470	2,763,673	3,290,444	7,723,336	6,709,914
Expenses						
General government	826,321	614,955			826,321	614,955
Public Safety	1,563,245	1,273,368			1,563,245	1,273,368
Streets and drainage	1,154,484	1,126,007			1,154,484	1,126,007
Interest	781,120	661,633			781,120	661,633
Parks and recreation						
Economic development	312,931	185,480			312,931	185,480
Water and sewer			2,008,365	1,800,099	2,008,365	1,800,099
Emergency medical services			46,869	46,636	46,869	46,636
Construction and other			3,007	5,703	3,007	5,703
Other	191,740	582,990			191,740	582,990
Total expenses	4,829,841	4,444,433	2,058,241	1,852,438	6,888,082	6,296,871
Change in net assets	\$129,822	\$ -1,024,963	\$705,432	\$ 1,438,006	\$ 835,254	\$ 413,043

Financial Analysis of the Government's Funds

As noted earlier, the City of Lindale 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 ability to finance upcoming 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. As a measure of the Governmental fund's liquidity, the 2008 year ending fund balance of \$6,005,545 had four major components. These include the economic development fund balance of \$2.5 million, \$1.027 million in capital projects, \$442,588 in the unrestricted general fund and \$1.147 million in other governmental funds. The unrestricted portion represented 13.3% percent of the 2008 expenses that is more than the 11.9% expenses coverage in fiscal year 2007.

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

The 2008 unrestricted net assets of the proprietary fund amounted to \$74,573 as compared to the 2007 \$54,839 which is all held by the water and sewer fund.

The capital improvement fund recognizes and records all the transactions associated with the construction in progress for the improvements and expansion of the City's infrastructure, water distribution and waste water treatment facilities. In 2008 interest income of \$7,982 was recorded in addition to construction expenses of \$3,007. A (\$114,455) net transfer from the Capital Projects Fund resulted in a 2008 change to the Proprietary Fund net assets of (\$109,480). A \$1,148,443 transfer to the Water Fund resulted in a 2008 change to the Proprietary Fund net assets of \$845,440. The water and sewer project, funded by the Texas Community Development Block Grant, was finished with receivables for the year of \$127,631.

General Fund Budgetary Highlights

In the current fiscal year, even though expenditures exceeded appropriations in the Court, Fire and Public Works departments of the General Fund by \$86,068, \$960 and \$3,362, respectively, these over-expenditures were funded by greater than anticipated revenues and available fund balance in the General Fund.

Capital Assets and Debt Administration

Capital Assets. The City of Lindale's investment in capital assets net of accumulated depreciation and related debt for both the governmental and business-type activities as of September 30, 2008 is \$10,824,933 that is comparable to the 2007 total of \$9,676,105.

Net capital assets without the related debt reflect the capital asset value of \$27,151,025 changed from the 2007 \$26,020,424.

Capital Assets at Year-End Less Accumulated Depreciation

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$6,365,941	\$ 6,099,464	\$172,926	\$ 172,926	\$6,538,867	\$ 6,272,390
Construction in progress	23,034	17,800	40,517	1,139,422	63,551	1,157,222
Building and Improvements	2,816,804	2,540,970	249,694	249,694	3,066,498	2,790,664
Infrastructure	4,798,983	4,765,909			4,798,983	4,765,909
Machinery and Equipment	829,431	776,978	589,243	589,243	1,418,674	1,366,221
Water and sewer system	-	-	18,171,869	15,834,609	18,171,869	15,834,609
Total	14,834,193	14,201,121	19,224,249	17,985,894	34,058,442	32,187,015
Less Accumulated Depreciation	-1,599,531	-1,301,882	-5,307,886	-4,864,709	-6,907,417	-6,166,591
Combined Total	\$13,234,662	\$12,899,239	\$13,916,363	\$ 13,121,185	\$27,151,025	\$ 26,020,424

Additional information on the City's capital assets can be found in footnote 4C of this financial report.

Long term debt. At the end of the fiscal year 2008, the City governmental activities had outstanding debt obligations of \$13,420,000 plus \$145,787 of unamortized bond premium and a deferred defeasance credit of \$143,879 that totals \$13,421,908. The business-type activities had outstanding notes payable totaling \$58,425.

Compensated absence obligations are those amounts owed to employees for accumulated vacation and sick leave time that will be taken in the future.

Outstanding Debt at Year-End

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Certificates of obligation	\$9,730,000	\$ 10,190,000			\$9,730,000	\$ 10,190,000
General obligations	3,690,000	3,760,000			3,690,000	3,760,000
Deferred defeasance	-143,879	-156,203			-143,879	-156,203
Capital Lease	85,778	104,540	40,366	49,195	126,144	153,735
Unamortized bond premium	145,787	159,658			145,787	159,658
Notes payable	3,839,820	3,963,506	58,425	67,281	3,898,245	4,030,787
Compensated absences	134,918	110,046	32,603	32,107	167,521	142,153
Combined total	17,482,424	\$ 18,131,547	\$131,394	\$ 148,583	17,613,818	\$ 18,280,130

The City's outstanding debt is not rated. Additional information on the City's long-term debt can be found in footnote 4F of this financial report.

Economic Factors and Next Year's Budgets and Rates

Property taxes, retail sales, building permit and other economic indicators showed continued growth even though nationwide, the economy is slowing.

During 2008, the City engaged a professional consulting firm to perform a water and sewer rate cost analysis. Upon the firm's findings and recommendation, the City adopted a water and sewer rate ordinance that adjusts the rates annually over a 5 year period to ensure debt payment responsibility.

The expansion of the hotel/motel facilities in the City increased with two new hotels that opened during 2008. Sales taxes revenues were impacted favorably by the two new restaurants that opened in 2007. These new merchants and service facilities will increase the demand for City services and infrastructure. With the anticipated tax revenues, the City strives to keep expenditures to a minimum and Lowe's sales tax rebate was paid back in approximately 15 months by showing a steady increase in sales. 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.

In 2008 the City formulated a 5 year Master Plan for Capital and Personnel needs. The plan will be used as a tool for gauging the City's future growth and planning needs.

All of these factors were considered in preparing the City's budget for the 2009 fiscal year. The fiscal year 2009 budget was based on an ad valorem rate of .4831 per \$100 valuation that is less than the prior year's ad valorem rate of .502600 per \$100 valuation due to the additions to the City's taxable property list.

Request for information

This financial report is designed to provide a general overview of the City of Lindale'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 Lindale P.O. Box 130 Lindale, Texas or call 903-882-3422.

BASIC FINANCIAL STATEMENTS

**CITY OF LINDALE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

EXHIBIT 1

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 5,712,451	\$ 74,494	\$ 5,786,945
Receivables (net of allowance for doubtful accounts)	519,582	317,643	837,225
Prepaid expenses	555	-	555
Internal balances	14,576	(14,576)	-
Restricted Assets:			
Temporarily restricted			
Cash and cash equivalents	10,000	743,009	753,009
Bond issue costs (net)	359,198	-	359,198
Capital Assets (net of accumulated depreciation):			
Land	6,365,941	172,926	6,538,867
Buildings and improvements	2,321,715	202,681	2,524,396
Infrastructure	4,175,891	-	4,175,891
Machinery and equipment	348,081	87,218	435,299
Construction in progress	23,034	40,517	63,551
Water and sewer system	-	13,413,021	13,413,021
Total Assets	19,851,024	15,036,933	34,887,957
LIABILITIES			
Accounts payable and accrued expenses	214,939	192,368	407,307
Deposits and other refundable balances	-	147,692	147,692
Deferred revenue	-	-	-
Accrued interest	72,083	-	72,083
Non-current liabilities:			
Due within one year	727,855	26,294	754,149
Due in more than one year	16,754,569	105,100	16,859,669
Total Liabilities	17,769,446	471,454	18,240,900
NET ASSETS			
Investment in capital assets, net of related debt	(3,085,030)	13,909,963	10,824,933
Restricted for:			
Debt retirement	882,893	-	882,893
Parks			
Expendable	6,419	-	6,419
Nonexpendable	217,436	-	217,436
Capital improvements	1,027,814	580,943	1,608,757
Unrestricted	3,032,046	74,573	3,106,619
Total Net Assets	\$ 2,081,578	\$ 14,565,479	\$ 16,647,057

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

CITY OF LINDALE, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2008

PROGRAM ACTIVITIES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:							
Governmental activities:							
General government	\$ 826,321	\$ 174,845	-	\$ -	\$ (651,476)	\$ -	\$ (651,476)
Public safety	1,563,245	365,736	-	-	(1,197,509)	-	(1,197,509)
Public works	1,154,484	682,998	-	-	(471,486)	-	(471,486)
Economic development	312,931	-	-	-	(312,931)	-	(312,931)
Interest	781,120	-	-	-	(781,120)	-	(781,120)
Other	191,740	-	10,163	-	(181,577)	-	(181,577)
Total governmental activities	4,829,841	1,223,579	10,163	-	(3,596,099)	-	(3,596,099)
Business-type activities:							
Water and sewer	2,008,365	1,693,800	-	228,696	-	(85,869)	(85,869)
Emergency Medical Services	46,869	48,212	-	-	-	1,343	1,343
Construction	3,007	-	-	-	-	(3,007)	(3,007)
Total business-type activities	2,058,241	1,742,012	-	228,696	-	(87,533)	(87,533)
Total primary government	\$ 6,888,082	\$ 2,965,591	\$ 10,163	\$ 228,696	\$ (3,596,099)	\$ (87,533)	\$ (3,683,632)
General revenues:							
Current and delinquent property taxes					1,713,072	-	1,713,072
Franchise taxes					269,371	-	269,371
Sales tax					1,940,038	-	1,940,038
Hotel/motel taxes					276,925	-	276,925
Interest and rent					278,079	18,201	296,280
Sale of lots					23,200	-	23,200
Transfers					(774,764)	774,764	-
Total general revenues and transfers					3,725,921	792,965	4,518,886
Change in net assets					129,822	705,432	835,254
Net assets - beginning of year					1,951,756	13,860,047	15,811,803
Net assets - end of year					\$ 2,081,578	\$ 14,565,479	\$ 16,647,057

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

CITY OF LINDALE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	MAJOR FUNDS					TOTAL GOVERNMENTAL FUNDS
	GENERAL	LINDALE ECONOMIC DEVELOPMENT	CAPITAL PROJECTS	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	
ASSETS						
Cash and cash equivalents	\$ 347,681	\$ 2,396,372	\$ 1,025,412	\$ 882,893	\$ 1,060,093	\$ 5,712,451
Receivables (net of allowance for doubtful accounts):						
Taxes	12,295	107,437	-	24,385	87,793	231,910
Sanitation	72,765	-	-	-	-	72,765
Other	214,907	-	-	-	-	214,907
Prepaid expenses	-	555	-	-	-	555
Due from other funds	21,544	-	14,274	-	-	35,818
Cash - restricted	-	10,000	-	-	-	10,000
Total Assets	\$ 669,192	\$ 2,514,364	\$ 1,039,686	\$ 907,278	\$ 1,147,886	\$ 6,278,406
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	119,724	-	11,872	-	-	131,596
Accrued expenses	73,343	-	-	-	-	73,343
Due to other funds	21,242	-	-	-	-	21,242
Deferred revenue	12,295	-	-	24,385	-	36,680
Option contract liability	-	10,000	-	-	-	10,000
Total Liabilities	226,604	10,000	11,872	24,385	-	272,861
Fund Balances:						
Reserved for:						
Debt retirement	-	-	-	882,893	-	882,893
Parks	-	-	-	-	223,855	223,855
Capital improvements	-	-	1,027,814	-	-	1,027,814
Total Reserved Fund Balances	-	-	1,027,814	882,893	223,855	2,134,562
Unreserved						
Undesignated	442,588	2,504,364	-	-	924,031	3,870,983
Total Undesignated Fund Balances	442,588	2,504,364	-	-	924,031	3,870,983
Total Fund Balances	442,588	2,504,364	1,027,814	882,893	1,147,886	6,005,545
Total Liabilities and Fund Balances	\$ 669,192	\$ 2,514,364	\$ 1,039,686	\$ 907,278	\$ 1,147,886	\$ 6,278,406

CITY OF LINDALE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

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)	\$ 6,005,545
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	13,234,663
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	36,679
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(72,083)
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(17,123,226)</u>
Net Assets of governmental activities	<u>\$ 2,081,578</u>

CITY OF LINDALE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2008

	MAJOR FUNDS				OTHER GOVERNMENTAL FUNDS	ELIMINATIONS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	LINDALE ECONOMIC DEVELOPMENT	CAPITAL PROJECTS	DEBT SERVICE			
REVENUES							
Current and delinquent property taxes	\$ 577,534	\$ -	\$ -	\$ 1,132,316	\$ -	\$ -	\$ 1,709,850
Franchise taxes	269,371	-	-	-	-	-	269,371
Sales tax	1,289,736	650,302	-	-	-	-	1,940,038
Building permits	50,634	-	-	-	-	-	50,634
Fines and forfeitures	365,736	-	-	-	-	-	365,736
Solid waste collections	682,998	-	-	-	-	-	682,998
Interest	17,369	104,509	50,409	38,488	35,123	-	245,898
Rents	18,310	-	-	-	-	-	18,310
Building and security	-	-	-	-	-	-	-
Service charges	-	-	-	-	1,400	-	1,400
Sale of lots	-	-	-	-	23,200	-	23,200
Donations	-	-	-	-	10,163	-	10,163
Hotel / Motel tax	-	-	-	-	276,925	-	276,925
Miscellaneous income	65,463	33,226	-	-	24,122	-	122,811
Total Revenues	3,337,151	788,037	50,409	1,170,804	370,933	-	5,717,334
EXPENDITURES							
General Government	728,824	-	-	-	-	-	728,824
Public safety	1,530,002	-	-	-	2,210	-	1,532,212
Public works	1,014,442	-	-	-	-	-	1,014,442
Economic development	21,649	341,081	-	-	-	-	362,730
Other	-	-	-	-	349,691	-	349,691
Debt service:							
Principal	-	123,686	-	530,000	-	-	653,686
Interest and fees	-	186,093	-	597,133	-	-	783,226
Loan issuance costs	-	-	-	-	-	-	-
Capital outlay	-	262,502	60,580	-	17,716	-	340,798
Total Expenditures	3,294,917	913,362	60,580	1,127,133	369,617	-	5,765,609
Revenues Over (Under) Expenditures	42,234	(125,325)	(10,171)	43,671	1,316	-	(48,275)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	27,184	(27,184)	-
Transfers out	(25,084)	-	(676,125)	-	(100,739)	27,184	(774,764)
Total Other Financing Sources (Uses)	(25,084)	-	(676,125)	-	(73,555)	-	(774,764)
Net Change in Fund Balances	17,150	(125,325)	(686,296)	43,671	(72,239)	-	(823,039)
Fund Balance, October 1, 2007	425,438	2,629,689	1,714,110	839,222	1,220,125	-	6,828,584
Fund Balance, September 30, 2008	\$ 442,588	\$ 2,504,364	\$ 1,027,814	\$ 882,893	\$ 1,147,886	\$ -	\$ 6,005,545

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

EXHIBIT 5

CITY OF LINDALE, 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, 2008

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

Net change in fund balances - total governmental funds	\$ (823,039)
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.	335,423
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,221
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.	<u>614,217</u>
Change in net assets of governmental activities	<u><u>\$ 129,822</u></u>

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

CITY OF LINDALE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/(NEGATIVE)
REVENUES				
Current and delinquent property taxes	\$ 568,302	\$ 568,302	\$ 577,534	\$ 9,232
Franchise taxes	250,000	250,000	269,371	19,371
Sales tax	1,175,000	1,175,000	1,286,020	111,020
Building permits	60,000	60,000	50,634	(9,366)
Fines and forfeitures	250,000	364,000	365,736	1,736
Solid waste collections	595,600	674,600	675,675	1,075
Interest	25,000	25,000	17,369	(7,631)
Rents	7,000	7,000	18,310	11,310
LEDC Reimbursement	90,718	90,718	-	(90,718)
Miscellaneous income	7,000	65,300	65,463	163
Total Revenues	<u>3,028,620</u>	<u>3,279,920</u>	<u>3,326,112</u>	<u>46,192</u>
EXPENDITURES				
General Government	788,348	860,615	749,900	110,715
Public safety	1,454,479	1,489,472	1,526,993	(37,521)
Public works	869,848	1,010,489	1,013,851	(3,362)
Total Expenditures	<u>3,112,675</u>	<u>3,360,576</u>	<u>3,290,744</u>	<u>69,832</u>
Revenues Over (Under) Expenditures	(84,055)	(80,656)	35,368	116,024
OTHER FINANCING SOURCES (USES)				
Transfers in	84,055	84,055	-	(84,055)
Transfers out	-	-	(25,084)	(25,084)
Total Other Financing Sources (Uses)	<u>84,055</u>	<u>84,055</u>	<u>(25,084)</u>	<u>(109,139)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budget Basis	-	3,399	10,284	6,885
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	6,866	6,866
Revenues and Other Sources Over (Under) Expenditures and Other Uses - GAAP Basis	-	3,399	17,150	13,751
Fund Balance, October 1, 2007	-	-	425,438	425,438
Fund Balance, September 30, 2008	<u>\$ -</u>	<u>\$ 3,399</u>	<u>\$ 442,588</u>	<u>\$ 439,189</u>

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

CITY OF LINDALE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2008

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

Basis Presentation:

Sources/Inflows of Resources:

Differences - Budget to GAAP

Increase in accrued service revenues for services earned during the current year
but billed in the following year

\$ 7,323
3,716

Change in sales tax receivable

Uses/Outflows of Resources:

Differences - Budget to GAAP

Increase in accrued expenses for services rendered or goods provided during the current
year but paid for in the following year

(4,381)

Decrease in accounts payable

208

Net Change in Budget Basis Presentation and GAAP Basis Presentation

\$ 6,866

CITY OF LINDALE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	BUSINESS-TYPE ACTIVITIES				
	ENTERPRISE FUNDS				
	WATER & SEWER FUND	CAPITAL IMPROVEMENT FUND	TCDP 2006 GRANT FUND	TXCDBG #728239 FUND	TOTAL ENTERPRISE FUNDS
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 74,494	\$ -	\$ -	\$ -	\$ 74,494
Due from other funds	29,834	7,660	29,984	-	67,478
Accounts receivable (Net)	190,012	-	127,631	-	317,643
Total Current Assets	294,340	7,660	157,615	-	459,615
Restricted current assets:					
Temporarily Restricted					
Customer deposits	147,692	-	-	-	147,692
Cash for construction	-	595,317	-	-	595,317
Total restricted current assets	147,692	595,317	-	-	743,009
Capital Assets:					
Land	172,926	-	-	-	172,926
Water & Sewer system	18,171,869	-	-	-	18,171,869
Buildings	249,694	-	-	-	249,694
Machinery & equipment	589,243	-	-	-	589,243
Construction in progress	34,117	-	-	6,400	40,517
Less: Accumulated depreciation	(5,307,886)	-	-	-	(5,307,886)
Total Capital Assets Net Of Accumulated Depreciation	13,909,963	-	-	6,400	13,916,363
Total Noncurrent Assets:	13,909,963	-	-	6,400	13,916,363
Total Assets	\$ 14,351,995	\$ 602,977	\$ 157,615	\$ 6,400	\$ 15,118,987
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 36,438	\$ 3,760	\$ 127,631	\$ -	\$ 167,829
Accrued expenses	24,539	-	-	-	24,539
Due to other funds	27,396	24,674	29,984	-	82,054
Compensated absences	5,434	-	-	-	5,434
Capital lease payable - current portion	9,485	-	-	-	9,485
Notes payable - current portion	11,375	-	-	-	11,375
Total Current Liabilities	114,667	28,434	157,615	-	300,716
Current liabilities payable from restricted assets:					
Customer deposits	147,692	-	-	-	147,692
Total current liabilities payable from restricted assets	147,692	-	-	-	147,692
Noncurrent Liabilities:					
Compensated absences	27,169	-	-	-	27,169
Capital lease payable	30,881	-	-	-	30,881
Notes payable	47,050	-	-	-	47,050
Total Noncurrent Liabilities	105,100	-	-	-	105,100
Total Liabilities	367,459	28,434	157,615	-	553,508
NET ASSETS					
Invested in capital assets, net of related debt	13,909,963	-	-	-	13,909,963
Restricted for:					
Capital improvements	-	574,543	-	6,400	580,943
Unrestricted	74,573	-	-	-	74,573
Total Net Assets	\$ 13,984,536	\$ 574,543	\$ -	\$ 6,400	\$ 14,565,479

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

CITY OF LINDALE, TEXAS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 2008

	BUSINESS-TYPE ACTIVITIES					TOTAL ENTERPRISE FUNDS
	ENTERPRISE FUNDS					
	WATER & SEWER FUND	CAPITAL IMPROVEMENT FUND	TCDP 2006 GRANT FUND	TXCDBG #728239 FUND	ELIMINATIONS	
OPERATING REVENUES						
Charges for services:						
Water sales	\$ 1,013,618	\$ -	\$ -	\$ -	\$ -	\$ 1,013,618
Sewer charges	621,412	-	-	-	-	621,412
EMS	48,212	-	-	-	-	48,212
Tap and connect fees	52,888	-	-	-	-	52,888
Miscellaneous	5,882	-	-	-	-	5,882
Rents	12,793	-	-	-	-	12,793
Total Operating Revenues	<u>1,754,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,754,805</u>
OPERATING EXPENSES						
Water and sewer operations	1,565,188	-	-	-	-	1,565,188
Emergency Medical Services	46,869	-	-	-	-	46,869
Construction	-	3,007	-	-	-	3,007
Depreciation	443,177	-	-	-	-	443,177
Total Operating Expenses	<u>2,055,234</u>	<u>3,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,058,241</u>
Operating Income (Loss)	<u>(300,429)</u>	<u>(3,007)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(303,436)</u>
NON-OPERATING REVENUES (EXPENSES)						
Grant revenue	-	-	228,696	-	-	228,696
Interest and fiscal charge expense	(8,743)	-	-	-	-	(8,743)
Interest income	6,169	7,982	-	-	-	14,151
Total non-operating revenue (expenses)	<u>(2,574)</u>	<u>7,982</u>	<u>228,696</u>	<u>-</u>	<u>-</u>	<u>234,104</u>
Income before transfers	(303,003)	4,975	228,696	-	-	(69,332)
Transfers in	1,148,443	100,739	147,574	6,400	(626,292)	776,864
Transfers out	-	(215,194)	(413,198)	-	626,292	(2,100)
Total Transfers	<u>1,148,443</u>	<u>(114,455)</u>	<u>(265,624)</u>	<u>6,400</u>	<u>-</u>	<u>774,764</u>
Change in Net Assets	845,440	(109,480)	(36,928)	6,400	-	705,432
Net Assets, October 1, 2007	<u>13,139,096</u>	<u>684,023</u>	<u>36,928</u>	<u>-</u>	<u>-</u>	<u>13,860,047</u>
Net Assets, September 30, 2008	<u>\$ 13,984,536</u>	<u>\$ 574,543</u>	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ -</u>	<u>\$ 14,565,479</u>

CITY OF LINDALE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

	BUSINESS-TYPE ACTIVITIES					TOTAL ENTERPRISE FUNDS
	WATER & SEWER FUND	CAPITAL IMPROVEMENT FUND	TCDP 2006 GRANT FUND	TXCDBG #728239 FUND	ELIMINATIONS	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers and users	\$ 1,763,468	\$ -	\$ -	\$ -	\$ -	\$ 1,763,468
Cash paid to suppliers for goods and services	(1,099,664)	(3,007)	-	-	-	(1,102,671)
Cash paid to employees for services	(515,713)	-	-	-	-	(515,713)
Net cash provided by (used in) operating activities	148,091	(3,007)	-	-	-	145,084
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Advances (to) from other funds	-	24,674	(21,304)	-	-	3,370
Transfers in	-	100,739	35,411	5,000	(5,000)	136,150
Transfers out	-	(5,000)	-	-	5,000	-
Net cash provided by (used in) non-capital financing activities	-	120,413	14,107	5,000	-	139,520
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets and equipment	(120,440)	(229,070)	(136,476)	(5,000)	-	(490,986)
Grant revenue received	-	-	122,369	-	-	122,369
Payment on note payable	(8,856)	-	-	-	-	(8,856)
Payment on capital lease	(8,829)	-	-	-	-	(8,829)
Interest paid	(8,743)	-	-	-	-	(8,743)
Net cash (used in) capital and related financing activities	(146,868)	(229,070)	(14,107)	(5,000)	-	(395,045)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest earned on investments	6,169	7,982	-	-	-	14,151
Net cash provided by investing activities	6,169	7,982	-	-	-	14,151
Net increase (decrease) in cash	7,392	(103,682)	-	-	-	(96,290)
Cash, beginning of period	214,794	698,999	-	-	-	913,793
Cash, end of period	\$ 222,186	\$ 595,317	\$ -	\$ -	\$ -	\$ 817,503
Reconciliation of cash to Exhibit 7:						
Cash - current asset	\$ 74,494	\$ -	\$ -	\$ -	\$ -	\$ 74,494
Cash - restricted current asset	147,692	595,317	-	-	-	743,009
Total cash, end of period	\$ 222,186	\$ 595,317	\$ -	\$ -	\$ -	\$ 817,503

CITY OF LINDALE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of Operating Income (Loss) To Net Cash
Provided By (Used In) Operating Activities:

Operating income (loss)	\$ (300,429)	\$ (3,007)	\$ -	\$ -	\$ -	\$ (303,436)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation expense	443,177	-	-	-	-	443,177
Increase in accounts receivable	(3,184)	-	-	-	-	(3,184)
Increase (Decrease) in accounts payable	(3,816)	-	-	-	-	(3,816)
Increase in customer deposits	11,847	-	-	-	-	11,847
Increase in compensated absences	496	-	-	-	-	496
Total adjustments	448,520	-	-	-	-	448,520
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 148,091</u>	<u>\$ (3,007)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,084</u>

CITY OF LINDALE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Lindale, Texas operates under a Mayor-City Council form of government and provides the following services: general administration, police, planning and zoning, street, solid waste, and water and sewer services.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

B. The Reporting Entity

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

The financial statements of the City of Lindale, 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 Government Accounting Standards Board Statement No. 39 "Determining Whether Certain Organizations are Component Units – an amendment of GASB No. 14", 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.

Individual Component Unit Disclosure – Blended Component Units

The City has one separate component unit. The Lindale Economic Development Corporation (LEDC) is governed by a five (5) member board, appointed by the City Council and Mayor. The sole purpose of the LEDC is to determine the use of the proceeds of the one-half cent city sales tax for community development activities within the City. Although it is legally separate from the City, the LEDC is reported as a component unit of the City of Lindale because of the City's control over the financial operations and decisions of the LEDC.

All other entities associated with the City are excluded from the financial statements because they are autonomous governments or are administrative in nature.

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 Lindale Economic Development Fund is a special revenue fund which is used to account for the activities of the Lindale Economic Development Corporation, a component unit of the City.

The Capital Projects Fund is a governmental capital projects fund used to account for construction costs to be funded by the proceeds from the Series 2006 Certificates of Obligation.

The Debt Service Fund accounts for the repayment of the City's general obligation debt.

The government reports the following major proprietary funds:

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

The Capital Improvements Fund accounts for the construction of water and sewer construction projects.

The TCDP 2006 Grant Fund accounts for the costs of water and sewer construction projects funded by a Community Development Program grant and local funds.

The TXCDBG #728239 Fund accounts for the costs of a water and sewer construction project funded by a Community Development Program grant and local funds.

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 (1) charges to customers or applicants for goods, services, or privileges provided and (2) 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 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, as well as certificates of deposit and funds maintained in external investment pools that can be readily converted to cash on a daily basis.

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. 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 \$3,000 (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	25-40
Machinery and equipment	5-10
Infrastructure	40

5. 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.
6. Bond issue costs – Bond issue costs are amortized over the life of the bonds under straight line or the effective interest method.
7. 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.
8. 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.
9. Capitalized interest – The City has capitalized interest on construction projects when material.
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 \$13,234,663 difference are as follows:

Capital assets, October 1, 2007, net of accumulated depreciation	\$12,899,240
Capital asset additions, net of retirements	633,072
Depreciation of capital assets, current year	<u>(297,649)</u>
	<u>\$13,234,663</u>

Another element states that “Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$(17,123,226) difference are as follows:

Long-term liabilities, October 1, 2007	\$(18,131,547)
Amortization of bond premium	13,871
Principal paid on debt for the year	672,448
Bond issue and insurance costs	396,210
Amortization of bond issue and insurance costs	(37,012)
Accretion of deferred defeasance	(12,324)
Change in compensated absences	<u>(24,872)</u>
	<u>\$(17,123,226)</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 details of this \$335,423 difference are as follows:

Capital outlay, asset additions, net of retirements	\$633,072
Depreciation expense	<u>(297,649)</u>
	<u>\$335,423</u>

Another element states "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." The details of this \$614,217 difference are as follows:

Principal paid on debt for the year	672,448
Amortization of bond premium	13,871
Amortization of bond issue and insurance costs	(37,012)
Accretion of deferred defeasance	(12,324)
Change in accrued interest	2,106
Change in compensated absences	<u>(24,872)</u>
	<u>\$ 614,217</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, Debt Service Fund, Hotel Motel Tax Fund, Cemetery Fund and the Water and Sewer Fund are adopted essentially on the cash basis. The budgetary comparisons for these funds 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, 2008, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 299,700	\$ 300,000
Collateral held by pledging bank's Trust Department in City's name	<u>2,562,511</u>	<u>2,488,859</u>
Total Depository Accounts	2,862,211	2,788,859
Intergovernmental investment pool: Texpool	3,677,443	3,777,443
Petty Cash on hand	<u>300</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$6,539,954</u>	<u>\$6,566,302</u>

Interest Rate Risk – The City’s investment policy allows for investments to be made in order to achieve the highest return of interest on excess cash.

Credit Risk – The City’s investment policy allows for investments in intergovernmental investment pools. The City’s investment in Texpool is not evidenced by securities that exist in physical or book entry form and are not subject to credit risk categorization.

B. Receivables

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

	General Fund	Lindale Economic Development	Debt Service	Water and Sewer Fund	TCDP 2006 Grant Fund	Other Governmental Funds	Total
Receivables:							
Taxes	\$ 19,343	\$ -	\$ 38,356	\$ -	\$ -	\$ 87,793	\$ 145,492
Sanitation	78,488	-	-	-	-	-	78,488
Sales Tax	214,907	107,437	-	-	-	-	322,344
Accounts	-	-	-	210,859	127,631	-	338,490
Gross Receivables	312,738	107,437	38,356	210,859	127,631	87,793	884,814
Less: Allowance for Uncollectibles	(12,771)	-	(13,971)	(20,847)	-	-	(47,589)
Net Receivables	<u>\$299,967</u>	<u>\$ 107,437</u>	<u>\$ 24,385</u>	<u>\$ 190,012</u>	<u>\$ 127,631</u>	<u>\$ 87,793</u>	<u>\$ 837,225</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2008 is 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	\$ 6,099,464	\$ 266,477	\$ -	\$ 6,365,941
Construction in Progress	<u>17,800</u>	<u>14,534</u>	<u>(9,300)</u>	<u>23,034</u>
Total Capital Assets, Not Being Depreciated	6,117,264	281,011	(9,300)	6,388,975
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,540,970	275,834	-	2,816,804
Infrastructure	4,765,909	33,074	-	4,798,983
Machinery and Equipment	<u>776,978</u>	<u>52,453</u>	<u>-</u>	<u>829,431</u>
Total Capital Assets, Being Depreciated	8,083,857	361,361	-	8,445,218
Less Accumulated Depreciation For:				
Buildings and Improvements	(435,275)	(59,814)	-	(495,089)
Infrastructure	(503,539)	(119,553)	-	(623,092)
Machinery and Equipment	<u>(363,068)</u>	<u>(118,282)</u>	<u>-</u>	<u>(481,350)</u>
Total Accumulated Depreciation	(1,301,882)	(297,649)	-	(1,599,531)
Net Total Assets Being Depreciated	<u>6,781,975</u>	<u>63,712</u>	<u>-</u>	<u>6,845,687</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,899,239</u>	<u>\$ 344,723</u>	<u>\$ (9,300)</u>	<u>\$ 13,234,662</u>

Business-Type Activities:

Capital Assets, Not Being Depreciated:				
Land	\$ 172,926	\$ -	\$ -	\$ 172,926
Construction in Progress	<u>1,139,422</u>	<u>952,014</u>	<u>(2,050,919)</u>	<u>40,517</u>
Total Capital Assets, Not Being Depreciated	1,312,348	952,014	(2,050,919)	213,443
Capital Assets, Being Depreciated:				
Water and Sewer System	15,834,609	2,337,260	-	18,171,869
Buildings	249,694	-	-	249,694
Machinery and Equipment	<u>589,243</u>	<u>-</u>	<u>-</u>	<u>589,243</u>
Total Capital Assets, Being Depreciated	16,673,546	2,337,260	-	19,010,806
Less Accumulated Depreciation for:				
Water and Sewer System	(4,354,222)	(404,626)	-	(4,758,848)
Buildings	(40,209)	(6,804)	-	(47,013)
Machinery and Equipment	<u>(470,278)</u>	<u>(31,747)</u>	<u>-</u>	<u>(502,025)</u>
Total Accumulated Depreciation	<u>(4,864,709)</u>	<u>(443,177)</u>	<u>-</u>	<u>(5,307,886)</u>
Net Total Assets, Being Depreciated	<u>11,808,837</u>	<u>1,894,083</u>	<u>-</u>	<u>13,702,920</u>
Business-Type Activities Capital Assets, Net	<u>\$13,121,185</u>	<u>\$ 2,846,097</u>	<u>\$ (2,050,919)</u>	<u>\$13,916,363</u>

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

Governmental Activities:	
General Government	\$ 39,656
Public Safety	83,246
Public Works	<u>174,747</u>
Total depreciation expense, governmental activities	<u>\$297,649</u>
Business-Type Activities:	
Water and Sewer Operations	\$438,145
Emergency Medical Services	<u>5,032</u>
Total	<u>\$443,177</u>

Construction Commitments

The City has been awarded an ORCA Community Development Program grant, which will be used to provide first time public sewer service to twenty-seven households. The amount of the grant is \$250,000 and the city's local match is \$194,390. The City anticipates awarding the construction contract in fiscal year 2009.

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2008 is as follows:

Interfund receivables/payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 21,544
Water and Sewer Fund	General Fund	21,242
Water and Sewer Fund	TCDP 2006 Grant Fund	2,740
Capital Projects Fund	TCDP 2006 Grant Fund	19,584
Capital Improvement Fund	TCDP 2006 Grant Fund	7,660
TCDP 2006 Grant Fund	Capital Projects Fund	5,310
TCDP 2006 Grant Fund	Capital Improvement Fund	<u>24,674</u>
		<u>\$102,754</u>

Interfund transfers:

<u>Transfers out</u>	<u>Transfers In</u>	<u>Amount</u>
Texas Capital Fund	Capital Improvement Fund	\$ 100,739
General Fund	Building Security Fund	17,046
General Fund	Court Technology Fund	10,138
Capital Improvement Fund	General Fund	2,100
TCDP 2006 Grant Fund	Water and Sewer Fund	413,198
Capital Projects Fund	TCDP 2006 Grant Fund	88,958
Capital Improvement Fund	TCDP 2006 Grant Fund	58,615
Capital Improvement Fund	TXCDBG #728239 Fund	5,000
Capital Projects Fund	TXCDBG #728239 Fund	1,400
Capital Improvement Fund	Water and Sewer Fund	149,479
Capital Projects Fund	Water and Sewer Fund	<u>585,766</u>
		<u>\$ 1,432,439</u>

E. Leases

Operating Leases

The City leases four copy machines, one located in the City Hall conference room, one at the Water Department building, one in Municipal Court, and one in Code Enforcement, under four separate lease agreements. Total costs for such leases were \$8,416 for the year ended September 30, 2008. The future minimum lease payments for these leases are as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Amount</u>
2009	\$ 8,416
2010	7,147
2011	4,265
2012	<u>2,297</u>
TOTAL	<u>\$ 22,125</u>

Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of the City's new software, INCODE. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Asset:		
INCODE software	\$105,008	\$ 49,415
Less: Accumulated depreciation	<u>(29,752)</u>	<u>(14,001)</u>

TOTAL	<u>\$ 75,256</u>	<u>\$ 35,414</u>
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The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2009	\$ 25,669	\$ 12,080
2010	25,669	12,080
2011	25,669	12,080
2012	<u>21,391</u>	<u>10,066</u>
Total minimum lease payments	98,398	46,306
Less: Amount representing interest	<u>(12,620)</u>	<u>(5,940)</u>
Present value of minimum lease payments	<u>\$ 85,778</u>	<u>\$ 40,366</u>

F. Long-term debt

The government has issued bonds in prior years to fund construction projects to improve or expand the water and sewer system as well as the City's streets and for constructing and equipping a public safety/administration building, municipal parking facilities, equipping the police and code enforcement departments and professional services rendered in connection therewith. Also, bonds issued in prior years were used to refinance a portion of its old bonds. These bonds will be repaid from amounts levied against the property owners benefited by the construction. Outstanding bonds at September 30, 2008 are comprised of the following issues:

Governmental Activities:

\$2,690,000 Series 2000 Combination Tax and Utility System Revenue Certificates of Obligation maturing serially in various amounts through 8-15-25. Interest rates varying from 4.00 % to 5.75 %.	\$ 15,000
\$4,730,000 Series 2004 Combination Tax and Utility System Revenue Refunding Bonds maturing serially in various amounts through 8-15-20. Interest rates varying from 2.5 % to 4.5 %.	3,955,000
\$3,140,000 Series 2004 Combination Tax and Utility System Certificates of Obligation maturing serially in various amounts through 8-15-25. Interest rates varying from 2.5 % to 4.8 %.	2,760,000
\$3,910,000 Series 2005 Unlimited Tax Refunding Bonds maturing serially in various amounts through 8-15-25. Interest rates varying from 3.25% to 5.00 %.	3,690,000
\$3,000,000 Series 2006 Combination Tax and Utility System Revenue Certificates of Obligation maturing serially in various amounts through 08-15-25. Interest rates varying from 4.25% to 5.00%.	<u>3,000,000</u>
Total Outstanding Governmental Bonded Debt	13,420,000
Plus: Unamortized Bond Premium	145,787
Less: Deferred Loss on Refunding, net of accretion	<u>(143,879)</u>

Net Outstanding Governmental Bonded Debt

\$13,421,908

The funding requirements to amortize all bonds outstanding as of September 30, 2008, including interest, are as follows:

YEAR ENDED	GOVERNMENTAL ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
9-30			
2009	\$ 555,000	\$ 742,530	\$ 1,279,530
2010	570,000	556,598	1,126,598
2011	595,000	533,435	1,128,435
2012	625,000	509,186	1,134,186
2013	650,000	482,748	1,132,748
2014-2018	3,695,000	1,979,649	5,674,649
2019-2023	4,590,000	1,104,760	5,694,760
2024-2025	<u>2,140,000</u>	<u>144,453</u>	<u>2,284,453</u>
	13,420,000	6,035,359	19,455,359
Unamortized Bond Premium	145,787	-	145,787
Deferred defeasance, net of accretion	<u>(143,879)</u>	<u>-</u>	<u>(143,879)</u>
	<u>\$13,421,908</u>	<u>\$ 6,035,359</u>	<u>\$19,457,267</u>

Each bond issue has a respective bond ordinance authorizing (a) creation of an interest and sinking fund for the bond issue and (b) establishment of a required minimum balance to be held by each issue in order to pay the next interest and sinking requirement due.

The bond ordinances also require that the following information concerning insurance coverage as of September 30, 2008 be disclosed.

Insurer	Policy	Limit of Liability		Expiration Date
		Each Occurrence	Annual Aggregate	
Texas Municipal League	General Liability	\$2,000,000	\$4,000,000	10/1/2008
	Law Enforcement	1,000,000	2,000,000	10/1/2008
	Errors & Omissions	1,000,000	2,000,000	10/1/2008
	Auto Liability	500,000	n/a	10/1/2008
	Auto Physical Damage	10,000	n/a	10/1/2008
Texas Municipal League	Real & Personal Property	4,985,664	n/a	10/1/2008
	Mobile Equipment	460,604	n/a	10/1/2008
	Boiler & Machinery	100,000	n/a	10/1/2008
Texas Municipal League	Workers Comp	1,331,376	n/a	10/1/2008

As of September 30, 2008, the City was in compliance with all requirements of its bond ordinances.

The City also has the following notes payable at September 30, 2008:

GOVERNMENTAL ACTIVITIES

LEDC note payable to Southside Bank; original loan amount of \$4,000,000; interest varies from 4.75% to 5.229%; payable in 60 monthly installments of \$25,814 beginning July 1, 2007, followed by 180 monthly installments of \$26,643 beginning September 1, 2012, secured by real estate.

Less: Current portion \$3,839,820

(130,212)

LONG-TERM PORTION \$3,709,608

BUSINESS-TYPE ACTIVITIES

Note payable to Lindale State Bank at 3.0% payable in monthly installments of \$1,061 plus interest, secured by EMS building
Less: Current portion

\$ 58,425
(11,375)

LONG-TERM PORTION \$ 47,050

The approximate maturities of notes payable for the next five years are as follows:

<u>YEAR ENDED</u> <u>SEPTEMBER 30,</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>
2009	\$ 130,212	\$ 11,375
2010	136,534	11,721
2011	143,162	12,078
2012	148,152	12,445
2013	151,733	8,621
2014-2018	889,190	2,185
2019-2023	1,154,345	-
2024-2027	<u>1,086,492</u>	<u>-</u>
Total	<u>\$ 3,839,820</u>	<u>\$ 58,425</u>

Changes in long-term liabilities

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

	<u>Beginning</u> <u>Balance</u> <u>10/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u> <u>9/30/08</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Certificates of Obligation	\$10,190,000	\$ -	\$(460,000)	\$ 9,730,000	\$480,000
General Obligation	3,760,000	-	(70,000)	3,690,000	75,000
Unamortized Bond Premium	159,658	-	(13,871)	145,787	-
Deferred defeasance	(156,203)	-	12,324	(143,879)	-
Capital Lease	104,540	-	(18,762)	85,778	20,157
Notes Payable	3,963,506	-	(123,686)	3,839,820	130,212
Compensated Absences	<u>110,046</u>	<u>24,872</u>	<u>-</u>	<u>134,918</u>	<u>22,486</u>
Governmental Activity Long-Term Liabilities	<u>\$18,131,547</u>	<u>\$24,872</u>	<u>\$(673,995)</u>	<u>\$17,482,424</u>	<u>\$727,855</u>
Business-type Activities:					
Notes Payable	\$ 67,281	\$ -	\$ (8,856)	\$ 58,425	\$ 11,375
Capital Lease	49,195	-	(8,829)	40,366	9,485
Compensated Absences	<u>32,107</u>	<u>496</u>	<u>-</u>	<u>32,603</u>	<u>5,434</u>
Business-type Activity Long-Term Liabilities	<u>\$ 148,583</u>	<u>\$ 496</u>	<u>\$(17,685)</u>	<u>\$ 131,394</u>	<u>\$ 26,294</u>

NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK

The City provides water, sewer, sanitation and emergency medical services to its residents. Residents are provided with these 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, 2008, the City had \$262,777 in net receivables from its residents for the usage of these services.

NOTE 6 – COMMITMENTS

On January 1, 2006, the City entered into a written contract with Allied Waste Systems, Inc. for the collection and disposal of garbage for residents as well as commercial and industrial units within the City limits. The service is to be paid for according to rates set forth within the contract. The contract is for a term of four years and nine months beginning January 1, 2006 and ending September 30, 2010 and is renewable for a successive five years upon mutual agreement of both parties.

NOTE 7 – 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). The City pays its coverage in three installments. As of September 30, 2008, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2008, 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 8 – EMPLOYEES' PENSION PLAN OBLIGATIONS

1. Plan Description

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

2. Other

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

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 (PUC) 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 25-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 (approx. 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 \$1,559,872 and the funded ratio would have been 37.6%.

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.

3. Benefits

Benefits depend upon the sum of the employees' 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 at least 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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of 04/04/07):

Deposit Rate:	6%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City.
The Service Retirement Eligibilities for the city (expressed as years of service/age) are:
5 yrs/age 60; 20 yrs/any age

4. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The projected unit credit actuarial cost method is used for determining the City 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 serves as 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).

5. Schedule of Funding Progress

Actuarial Valuation Date	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2005</u>
Actuarial Value of Assets	\$ 587,031	\$ 370,445	\$ 198,307
Actuarial Accrued Liability (AAL)	\$ 2,083,003	\$ 408,860	\$ 268,460
Unfunded (Over-Funded) Actuarial Accrued Liability (UAAL)	\$ 1,495,972	\$ 38,415	\$ 70,153
Funded Ratio	28.2%	90.6%	73.9%
Annual Covered Payroll	\$ 1,544,778	\$1,382,534	\$ 1,129,474
UAAL as a Percentage of Covered Payroll	96.8%	2.78%	6.2%

6. Trend Information

Fiscal Year Ending	<u>09/30/2008</u>	<u>09/30/2007</u>	<u>09/30/2006</u>
Annual Pension Cost (APC)	\$ 112,759	\$ 101,435	\$ 101,551
Percentage of APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

7. General System-wide Actuarial Assumptions (Effective for 12/31/2007 Valuation)

Actuarial Cost Method -	Projected Unit Credit
Amortization Method -	Level Percent of Payroll
Remaining Amortization Period -	30 Years – Closed
Asset Valuation Method -	Amortized Cost
Investment Rate of Return -	7%
Projected Salary Increases -	Varies by age and service
Includes Inflation At -	3.0%
Cost-of-Living Adjustments-	2.1% (3.0% CPI)

The City of Lindale is one of 827 municipalities having their benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the 12-31-07 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.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2008, expenditures exceeded appropriations in the Court, Fire and Public Works departments of the General Fund by \$86,068, \$960 and \$3,362, respectively. These overexpenditures were funded by greater than anticipated revenues and available fund balance in the General Fund.

NOTE 10 – CONTINGENT LIABILITIES

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

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF LINDALE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2008

	CEMETERY FUND	HOTEL/MOTEL TAX FUND	COURT TECHNOLOGY FUND	BUILDING SECURITY FUND	CHILD SAFETY FEES FUND	TEXAS CAPITAL FUND	POLICE EDUCATION FUND	POLICE FORFEITURE FUND	POLICE LEASE FUND	IB RICE FUND	PERMANENT FUND - KINZIE TRUST	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS												
Cash and cash equivalents	\$ 142,353	\$ 611,196	\$ 12,423	\$ 23,929	\$ 743	\$ -	\$ 5,094	\$ 2,083	\$ 8,824	\$ 29,593	\$ 223,855	\$ 1,060,693
Receivables	-	87,793	-	-	-	-	-	-	-	-	-	87,793
Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 142,353	\$ 698,989	\$ 12,423	\$ 23,929	\$ 743	\$ -	\$ 5,094	\$ 2,083	\$ 8,824	\$ 29,593	\$ 223,855	\$ 1,147,886
LIABILITIES AND FUND BALANCES												
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances												
Reserved for Parks	-	-	-	-	-	-	-	-	-	-	223,855	223,855
Reserved for Capital Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Undesignated unreserved	142,353	698,989	12,423	23,929	743	-	5,094	2,083	8,824	29,593	-	924,031
Total Fund Balances	142,353	698,989	12,423	23,929	743	-	5,094	2,083	8,824	29,593	223,855	1,147,886
Total Liabilities and Fund Balances	\$ 142,353	\$ 698,989	\$ 12,423	\$ 23,929	\$ 743	\$ -	\$ 5,094	\$ 2,083	\$ 8,824	\$ 29,593	\$ 223,855	\$ 1,147,886

CITY OF LINDALE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FISCAL YEAR ENDED SEPTEMBER 30, 2008

	CEMETERY FUND	HOTEL/MOTEL TAX FUND	COURT TECHNOLOGY FUND	BUILDING SECURITY FUND	CHILD SAFETY FEES FUND	TEXAS CAPITAL FUND	POLICE EDUCATION FUND	POLICE FORFEITURE FUND	POLICE LOOSE FUND	IB RICE FUND	PERMANENT FUND - KINZIE TRUST	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES												
Service charges	\$ 1,400	-	-	-	-	-	-	-	-	-	\$	1,400
Sale of lots	23,200	-	-	-	-	-	-	-	-	-	\$	23,200
Donations	10,163	-	-	-	-	-	-	-	-	-	\$	10,163
Hotel / Motel tax	-	276,925	-	-	-	-	-	-	-	-	\$	276,925
Miscellaneous	4,400	-	9,389	6,454	743	-	1,550	-	1,606	-	\$	24,122
Interest	4,219	-	240	429	-	-	135	52	202	-	\$	35,123
Total Revenues	43,382	276,925	9,629	6,883	743	-	1,685	52	1,808	953	\$	370,933
EXPENDITURES												
Building and grounds maintenance	21,965	-	-	-	-	-	-	-	-	-	\$	21,965
Miscellaneous	1,202	314,924	-	-	-	11,680	1,850	364	-	-	\$	329,026
Capital outlay	2,872	-	7,344	-	-	7,590	-	-	-	-	\$	17,816
Total Expenditures	26,039	314,924	7,344	-	-	19,100	1,850	360	-	-	\$	369,317
Excess (deficiency) of revenues over (under) expenditures	17,343	(16,239)	2,285	6,883	743	(19,100)	(185)	52	1,448	953	\$	1,316
OTHER FINANCING SOURCES (USES)												
Transfers in	-	-	10,138	17,046	-	-	-	-	-	-	\$	27,184
Transfers out	-	-	-	-	-	(100,739)	-	-	-	-	\$	(100,739)
Total Other Financing Sources (Uses)	-	-	10,138	17,046	-	(100,739)	-	-	-	-	\$	(73,555)
Net Change in Fund Balances	17,343	(16,239)	12,423	23,929	743	(119,839)	(185)	52	1,448	953	\$	(72,239)
Fund Balance, October 1, 2007	125,010	715,228	-	-	-	119,839	5,279	2,031	7,176	28,640	\$	1,220,125
Fund Balance, September 30, 2008	\$ 142,353	\$ 698,989	\$ 12,423	\$ 23,929	\$ 743	\$ -	\$ 5,094	\$ 2,083	\$ 8,624	\$ 29,593	\$ 223,855	\$ 1,147,886

CITY OF LINDALE, TEXAS
CEMETERY FUND
DETAILED SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/(NEGATIVE)
REVENUES				
Service Charge	\$ 1,000	\$ 1,000	\$ 1,400	\$ 400
Miscellaneous Income	-	1,466	4,400	2,934
Interest income	5,000	5,000	4,219	(781)
Sale of Cemetery Plots	15,000	15,000	23,200	8,200
Public Contribution	6,000	6,000	10,163	4,163
TOTAL FINANCING SOURCES - BUDGET BASIS	<u>\$ 27,000</u>	<u>\$ 28,466</u>	43,382	<u>\$ 14,916</u>
Financial Statement Adjustments:			-	
TOTAL FINANCING SOURCES - GAAP BASIS			<u>\$ 43,382</u>	
EXPENDITURES				
Cemetery Administration:				
Postage	\$ 1,000	\$ 1,000	\$ 251	\$ 749
Miscellaneous Supplies	3,000	3,000	-	3,000
Publications & advertising	-	100	100	-
Software contract	-	375	375	-
Legal	-	177	176	1
Professional	-	300	300	-
Cemetery & Grounds	18,000	21,966	21,965	1
Capital Outlay	5,000	5,000	2,872	2,128
TOTAL EXPENDITURES - BUDGET BASIS	<u>\$ 27,000</u>	<u>\$ 31,918</u>	26,039	<u>\$ 5,879</u>
Financial Statement Adjustments:			-	
TOTAL EXPENDITURES - GAAP BASIS			<u>\$ 26,039</u>	

CITY OF LINDALE, TEXAS
HOTEL-MOTEL OCCUPANCY TAX FUND
DETAILED SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE/(NEGATIVE)
REVENUES				
Motel Tax	\$ 200,000	\$ 200,000	\$ 242,096	\$ 42,096
Interest income	30,000	30,000	21,760	(8,240)
Transfer from Reserves	-	66,044	-	(66,044)
TOTAL FINANCING SOURCES - BUDGET BASIS	\$ 230,000	\$ 296,044	263,856	\$ (32,188)
Financial Statement Adjustments:				
Increase in taxes receivable			34,829	
TOTAL FINANCING SOURCES - GAAP BASIS			\$ 298,685	
EXPENDITURES				
Hotel-Motel Administration:				
Signs & Displays	\$ 30,000	\$ 36,500	\$ 34,199	\$ 2,301
Utilities	1,500	2,251	2,251	-
Miscellaneous Maintenance	2,500	2,500	174	2,326
Professional	35,000	35,000	14,456	20,544
Transfer to CD's	107,000	107,000	-	107,000
Chamber of Commerce	54,000	54,446	54,445	1
Building & Grounds	-	224,376	224,375	1
TOTAL EXPENDITURES - BUDGET BASIS	\$ 230,000	\$ 462,073	329,900	\$ 132,173
Financial Statement Adjustments:				
Decrease in accounts payable			(14,976)	
TOTAL EXPENDITURES - GAAP BASIS			\$ 314,924	

**CITY OF LINDALE, TEXAS
DEBT SERVICE FUND
DETAILED SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

	<u>BUDGET ORIGINAL</u>	<u>BUDGET FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE/(NEGATIVE)</u>
REVENUES				
Current and delinquent property taxes	\$ 1,128,108	\$ 1,128,108	\$ 1,132,316	\$ 4,208
Interest income	15,000	15,000	38,488	23,488
TOTAL FINANCING SOURCES - BUDGET BASIS	<u>\$ 1,143,108</u>	<u>\$ 1,143,108</u>	1,170,804	<u>\$ 27,696</u>
Financial Statement Adjustments:			-	
TOTAL REVENUES - GAAP BASIS			<u>\$ 1,170,804</u>	
EXPENDITURES				
Transfer to Escrow	\$ 15,000	\$ 15,000	\$ -	\$ 15,000
Debt Service:				
Bond principal	530,000	530,000	530,000	-
Interest and fees	595,108	595,108	595,108	-
Agent fees	3,000	3,000	2,025	975
TOTAL EXPENDITURES - BUDGET BASIS	<u>\$ 1,143,108</u>	<u>\$ 1,143,108</u>	1,127,133	<u>\$ 15,975</u>
Financial Statement Adjustments:			-	
TOTAL EXPENDITURES - GAAP BASIS			<u>\$ 1,127,133</u>	

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u> <u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUES				
Current and delinquent property taxes	\$ 568,302	\$ 568,302	\$ 577,534	\$ 9,232
Franchise taxes	250,000	250,000	269,371	19,371
Sales tax	1,175,000	1,175,000	1,286,020	111,020
Building permits	60,000	60,000	50,634	(9,366)
Fines and forfeitures	250,000	364,000	365,736	1,736
Transfer From Reserves	84,055	84,055	-	(84,055)
Garbage Collection	550,000	629,000	629,441	441
Garbage Tax	45,600	45,600	46,234	634
Miscellaneous Income	7,000	65,300	65,463	163
Interest Earned	25,000	25,000	17,369	(7,631)
Rental of Community Center	7,000	7,000	18,310	11,310
LEDC Reimbursement	90,718	90,718	-	(90,718)
	<u>90,718</u>	<u>90,718</u>	<u>-</u>	<u>(90,718)</u>
 FINANCING SOURCES -				
BUDGET BASIS				
	\$ <u>3,112,675</u>	\$ <u>3,363,975</u>	3,326,112	\$ <u>(37,863)</u>
 Financial Statement Adjustments:				
Sales tax receivable at 9-30-08			214,907	
Sales tax receivable at 9-30-07			(211,191)	
Increase in solid waste collection receivable			<u>7,323</u>	
 TOTAL FINANCING SOURCES -				
GAAP BASIS				
			\$ <u>3,337,151</u>	

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL GOVERNMENT/ADMINISTRATION				
PERSONNEL SERVICES:				
Supervision	\$ 115,647	\$ 115,647	\$ 96,694	\$ 18,953
Salaries-Full-time	30,183	30,183	25,487	4,696
Vacation	-	-	10,203	(10,203)
Sick Leave	-	-	2,624	(2,624)
Holiday	-	-	6,730	(6,730)
Auto allowance	4,800	4,800	4,615	185
Comp Time	-	-	3,847	(3,847)
Retirement	16,871	16,871	15,107	1,764
Social Security/Medicare	11,524	11,524	11,490	34
Health Insurance	12,650	12,650	12,670	(20)
Dental	828	828	806	22
Life Insurance	648	648	558	90
Vision	324	324	324	-
Long term disability	-	-	373	(373)
Workers comp	-	-	1,171	(1,171)
Total Personnel Services	193,475	193,475	192,699	776
SUPPLIES:				
Office Supplies	6,000	6,000	4,961	1,039
Postage	1,500	1,500	860	640
Miscellaneous Supplies	3,000	3,000	1,568	1,432
Building Supplies	300	300	-	300
Total Supplies	10,800	10,800	7,389	3,411
CONTRACTUAL:				
Miscellaneous	-	430	104	326
Communications-Telephone	12,000	13,025	13,012	13
Insurance & Bonds	24,000	24,000	23,051	949
Publications & Advertising	3,500	3,500	2,849	651
Utilities	20,000	20,640	20,636	4
Librarian	36,000	36,000	36,000	-
Association Dues	2,500	2,500	1,751	749
Travel	10,000	10,000	4,970	5,030
Schools	3,000	4,685	4,683	2
Software Contract	6,500	10,000	9,890	110
Total Contractual	117,500	124,780	116,946	7,834
MAINTENANCE:				
Building & grounds	2,500	2,500	2,128	372
Janitorial	13,000	13,000	11,250	1,750
Furniture & fixtures	500	500	294	206
Machinery & equipment	4,000	4,000	3,295	705
Total Maintenance	20,000	20,000	16,967	3,033
SUNDRY:				
Miscellaneous	-	6	5	1
Bank analysis fees	-	-	3,147	(3,147)
Elections	4,000	4,000	-	4,000
Legal	40,000	40,000	29,222	10,778
Professional	40,000	60,000	58,571	1,429
State Garbage Tax	45,600	45,600	45,484	116
Total Sundry	129,600	149,606	136,429	13,177
TOTAL GENERAL GOVERNMENT/ADMINISTRATION	471,375	498,661	470,430	28,231

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL GOVERNMENT/CODE ENFORCEMENT				
PERSONNEL SERVICES:				
Supervision	\$ 52,500	\$ 52,500	\$ 46,215	\$ 6,285
Salaries-Full-time	65,893	65,893	58,560	7,333
Vacation	-	-	2,256	(2,256)
Sick Leave	-	-	1,317	(1,317)
Holiday	-	-	5,515	(5,515)
Comp Time	-	-	5,775	(5,775)
Retirement	13,261	13,261	12,033	1,228
Social Security/Medicare	9,058	9,058	9,152	(94)
Health Insurance	12,620	12,620	12,620	-
Dental	828	828	806	22
Life Insurance	636	636	445	191
Vision	324	324	324	-
Long Term Disability	-	340	338	2
Workers Comp	-	-	-	-
Total Personnel Services	155,120	155,460	155,356	104
SUPPLIES:				
Office Supplies	2,000	2,340	2,321	19
Postage	600	600	360	240
Wearing Apparel	600	600	217	383
Fuel/Gas & Diesel	4,000	4,000	3,664	336
Technical Supplies	1,500	1,500	1,307	193
Computer Supplies	3,000	3,105	3,104	1
Total Supplies	11,700	12,145	10,973	1,172
CONTRACTUAL:				
Communications-Telephone	1,500	1,500	197	1,303
Communications	1,350	1,350	720	630
Insurance & Bonds	200	200	71	129
Publications & Advertising	500	900	721	179
Association Dues	600	1,050	1,041	9
Travel	2,000	2,400	2,359	41
Schools	4,000	5,546	5,546	-
Software Contract	5,285	7,285	7,285	-
Humane Society	3,000	3,000	1,628	1,372
Total Contractual	18,435	23,231	19,568	3,663
MAINTENANCE:				
Machinery & Equipment	3,000	16,200	16,151	49
Motor Vehicle & Maintenance	1,500	1,500	778	722
Total Maintenance	4,500	17,700	16,929	771
SUNDRY:				
Professional	10,000	36,200	36,127	73
ETS/Bank charges	-	-	543	(543)
Legal	5,000	5,000	4,336	664
Total Sundry	15,000	41,200	41,006	194
CAPITAL EXPENDITURES:				
Furniture & Equipment	1,000	1,000	749	251
Communications Equipment	3,000	3,000	2,478	522
Other equipment	17,500	17,500	11,158	6,342
Total Capital Expenditures	21,500	21,500	14,385	7,115
TOTAL GENERAL GOVERNMENT CODE ENFORCEMENT	226,255	271,236	258,217	13,019

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>GENERAL GOVERNMENT/LEDC</u>				
PERSONNEL SERVICES:				
Supervision	\$ 65,000	\$ 65,000	\$ 13,063	\$ 51,937
Vacation	-	-	750	(750)
Sick Leave	-	-	688	(688)
Holiday	-	-	500	(500)
Auto Allowance	7,200	7,200	2,250	4,950
Retirement	8,087	8,087	1,915	6,172
Social Security/Medicare	5,525	5,525	1,320	4,205
Health Insurance	4,210	4,210	701	3,509
Dental	288	288	45	243
Life Insurance	300	300	42	258
Vision	108	108	18	90
Long Term Disability	-	-	30	(30)
Workers Comp	-	-	(69)	69
Total Personnel Services	90,718	90,718	21,253	69,465
TOTAL GENERAL GOVERNMENT/LEDC	90,718	90,718	21,253	69,465
<u>COURT</u>				
PERSONNEL SERVICES:				
Supervision	8,100	8,100	7,800	300
Salaries-Full-time	55,216	55,216	46,656	8,560
Overtime	-	-	139	(139)
Vacation	-	-	2,123	(2,123)
Sick Leave	-	-	3,347	(3,347)
Holiday	-	-	2,552	(2,552)
Comp Time	-	-	967	(967)
Retirement	6,185	6,185	5,611	574
Social Security/Medicare	4,225	4,225	4,267	(42)
Health Insurance	8,415	8,415	8,413	2
Dental	552	552	537	15
Life Insurance	360	360	207	153
Vision	-	-	216	(216)
Long Term Disability	-	-	158	(158)
Total Personnel Services	83,053	83,053	82,993	60
SUPPLIES:				
Office Supplies	1,100	1,100	710	390
Postage	500	511	510	1
Total Supplies	1,600	1,611	1,220	391
CONTRACTUAL:				
Insurance & Bonds	100	100	50	50
Publications & Advertising	100	100	-	100
Association Dues	250	250	105	145
Travel	1,500	-	897	(897)
Schools	1,000	1,000	-	1,000
Total Contractual	2,950	1,450	1,052	398
SUNDRY:				
Court Expense	400	400	338	62
Legal	6,000	7,200	7,519	(319)
Professional	-	-	1,638	(1,638)
ETS/Bank charges	-	-	872	(872)
Miscellaneous	-	-	100	(100)
Transfer to State-Fines	100,000	100,000	184,050	(84,050)
Total Sundry	106,400	107,600	194,517	(86,917)
TOTAL COURT	194,003	193,714	279,782	(86,068)

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
POLICE				
PERSONNEL SERVICES:				
Supervision	\$ 55,705	\$ 55,705	\$ 50,333	\$ 5,372
Salaries-Full-time	718,412	718,412	611,035	107,377
Salaries-Part-time	-	-	1,302	(1,302)
Overtime	5,000	5,000	5,556	(556)
Vacation	-	-	30,223	(30,223)
Sick Leave	-	-	12,613	(12,613)
Holiday	-	-	31,537	(31,537)
Comp Time	-	-	14,110	(14,110)
Retirement	87,262	87,262	76,013	11,249
Social Security/Medicare	59,603	59,603	57,857	1,746
Health Insurance	96,754	96,754	83,433	13,321
Dental	6,072	6,072	5,326	746
Life Insurance	4,752	4,752	2,657	2,095
Vision	2,376	2,376	2,151	225
Long Term Disability	-	-	2,045	(2,045)
Workers Comp	-	-	24,445	(24,445)
Total Personnel Services	1,035,936	1,035,936	1,010,636	25,300
SUPPLIES:				
Office Supplies	4,500	4,500	3,622	878
Postage	600	600	545	55
Wearing Apparel	4,500	4,580	4,578	2
Fuel/Gas & Diesel	45,000	45,000	43,195	1,805
Technical Supplies	4,000	4,000	3,981	19
Miscellaneous Supplies	3,000	3,000	2,786	214
Total Supplies	61,600	61,680	58,707	2,973
CONTRACTUAL:				
Communications-Telephone	9,000	9,000	8,640	360
Communications	3,500	3,500	3,039	461
Insurance & Bonds	22,500	27,500	15,179	12,321
Publications & Advertising	700	700	560	140
Association Dues	500	500	480	20
Travel	4,000	4,000	745	3,255
Schools	3,000	3,000	1,768	1,232
Contracts - Miscellaneous	20,000	36,570	36,568	2
Total Contractual	63,200	84,770	66,979	17,791
MAINTENANCE:				
Machinery & Equipment	4,500	12,500	11,993	507
Motor Vehicle & Maintenance	14,000	15,100	15,091	9
Miscellaneous Maintenance	3,000	3,000	2,042	958
Building & Grounds	1,500	1,500	551	949
Total Maintenance	23,000	32,100	29,677	2,423
SUNDRY:				
Legal	500	3,500	3,487	13
Professional	4,000	4,030	4,028	2
Miscellaneous	-	502	851	(349)
Total Sundry	4,500	8,032	8,366	(334)
CAPITAL EXPENDITURES:				
Machinery & Equipment	10,000	11,000	10,780	220
Furniture & Equipment	480	480	420	60
Motor Vehicle	23,500	23,500	22,469	1,031
Other Equipment	-	-	-	-
Communications Equipment	7,500	7,500	7,457	43
Total Capital Expenditures	41,480	42,480	41,126	1,354
TOTAL POLICE	1,229,716	1,264,998	1,215,491	49,507

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
FIRE				
PERSONNEL SERVICES:				
Retirement	\$ 5,760	\$ 5,760	\$ 6,720	\$ (960)
Total Personnel Services	5,760	5,760	6,720	(960)
CAPITAL EXPENDITURES:				
Other Equipment	25,000	25,000	25,000	-
Total Capital Expenditures	25,000	25,000	25,000	-
TOTAL FIRE	30,760	30,760	31,720	(960)
PUBLIC WORKS				
PERSONNEL SERVICES:				
Salaries-Full-time	140,892	140,892	112,458	28,434
Overtime	3,000	3,000	1,604	1,396
Vacation	-	-	4,644	(4,644)
Sick Leave	-	-	4,150	(4,150)
Holiday	-	-	6,162	(6,162)
Comp Time	-	-	3,043	(3,043)
Retirement	16,115	16,115	13,218	2,897
Social Security/Medicare	11,008	11,008	10,103	905
Health Insurance	21,033	21,033	19,281	1,752
Dental	1,380	1,380	1,231	149
Life Insurance	780	780	408	372
Vision	540	540	495	45
Long Term Disability	-	-	285	(285)
Total Personnel Services	194,748	194,748	177,082	17,666
SUPPLIES:				
Office Supplies	2,000	2,000	663	1,337
Postage	50	50	-	50
Wearing Apparel	1,200	1,200	677	523
Fuel/Gas & Diesel	20,000	22,550	22,548	2
Technical Supplies	1,400	1,400	1,161	239
Cleaning Supplies	600	600	388	212
Building Supplies	800	800	750	50
Food Supplies	-	-	9	(9)
Tractor Supplies	4,000	4,000	3,196	804
Miscellaneous Supplies	500	500	209	291
Total Supplies	30,550	33,100	29,601	3,499
CONTRACTUAL:				
Communications-Telephone	5,000	5,000	1,321	3,679
Communications	1,000	1,000	405	595
Insurance & Bonds	1,500	1,500	-	1,500
Utilities	115,000	122,160	122,159	1
Association Dues	200	200	111	89
Equipment Rental	2,000	2,000	267	1,733
Schools	-	155	155	-
Solid Waste Contract	440,000	515,753	515,753	-
Janitorial Service	7,150	7,150	7,088	62
Software Contract	4,500	4,500	2,880	1,620
Total Contractual	576,350	659,418	650,139	9,279
MAINTENANCE:				
Building and Grounds	12,000	31,232	52,374	(21,142)
Machinery & Equipment	20,000	26,795	26,795	-
Motor Vehicle & Maintenance	4,000	4,400	4,397	3
Streets & Alleys	20,000	44,030	44,029	1
Culverts	1,000	1,000	568	432
Miscellaneous Maintenance	-	1,566	1,466	100
Signals & Markers	10,000	13,000	12,648	352
Total Maintenance	67,000	122,023	142,277	(20,254)
SUNDRY				
Legal	200	200	-	200
Professional	1,000	1,000	8,677	(7,677)
Total Sundry	1,200	1,200	8,677	(7,477)

CITY OF LINDALE, TEXAS
 DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
 (NON-GAAP BUDGET BASIS)
 GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
CAPITAL EXPENDITURES:				
Streets & Alleys	\$ -	\$ -	\$ 6,075	\$ (6,075)
Total Capital Expenditures	-	-	6,075	(6,075)
 TOTAL PUBLIC WORKS	 869,848	 1,010,489	 1,013,851	 (3,362)
 TOTAL EXPENDITURES - BUDGET BASIS	 \$ 3,112,675	 \$ 3,360,576	 3,290,744	 \$ 69,832
Financial Statement Adjustments:				
Increase in accrued expenses			4,381	
Other transfers			25,084	
Decrease in accounts payable			(208)	
 TOTAL EXPENDITURES - GAAP BASIS			 \$ 3,320,001	

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
WATER & SEWER FUND
YEAR ENDED SEPTEMBER 30, 2008

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Charges for services:				
Water sales	\$ 980,000	\$ 1,020,189	\$ 1,020,603	\$ 414
Sewer charges	485,000	602,000	611,244	9,244
EMS	50,000	50,000	48,212	(1,788)
Tap and connect fees	50,000	50,000	52,888	2,888
Miscellaneous	2,500	2,500	5,882	3,382
Rents	12,800	12,800	12,793	(7)
Transfers from reserves	-	4,983	-	(4,983)
Interest	1,000	-	6,169	6,169
	<u>1,000</u>	<u>-</u>	<u>6,169</u>	<u>6,169</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES - BUDGET BASIS	<u>\$ 1,581,300</u>	<u>\$ 1,742,472</u>	1,757,791	<u>\$ 15,319</u>
Financial Statement Adjustments:				
Water and sewer receivable for September 2007			(142,729)	
Water and sewer receivable for September 2008			148,644	
Water and sewer usage for September 2007 billed in subsequent month			(60,958)	
Water and sewer usage for September 2008 billed in subsequent month			58,226	
Transfers in for asset additions			<u>1,148,443</u>	
TOTAL REVENUES AND OTHER FINANCING SOURCES - GAAP BASIS			<u>\$ 2,909,417</u>	

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
WATER & SEWER FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
WATER & SEWER OPERATIONS				
PERSONNEL SERVICES:				
Supervision	\$ 55,125	\$ 55,125	\$ 41,993	\$ 13,132
Salaries Full-time	326,828	326,828	259,996	66,832
Overtime	24,000	24,000	15,822	8,178
Vacation	-	-	19,258	(19,258)
Sick Leave	-	-	19,654	(19,654)
Holiday	-	-	16,357	(16,357)
Comp Time	-	-	10,470	(10,470)
Certification Pay	-	-	-	-
Retirement	45,467	45,467	38,368	7,099
Social Security/Medicare	31,055	31,055	29,342	1,713
Health Insurance	56,016	56,016	46,274	9,742
Dental	3,312	3,312	2,954	358
Life Insurance	2,160	2,160	1,311	849
Vision	1,296	1,296	1,188	108
Long Term Disability	-	-	1,012	(1,012)
Workers Comp	-	-	11,714	(11,714)
Total Personnel Services	545,259	545,259	515,713	29,546
SUPPLIES:				
Office supplies	2,800	2,800	2,397	403
Postage	25,000	25,000	20,463	4,537
Wearing apparel	1,800	1,800	1,033	767
Fuel, gas & diesel	9,000	17,837	17,836	1
Technical supplies	2,000	2,000	1,572	428
Cleaning supplies	100	100	17	83
Building supplies	500	500	159	341
Food supplies	200	200	114	86
Chemicals & lab test	38,000	41,283	41,282	1
Tractor supplies	3,000	3,000	2,930	70
Miscellaneous supplies	300	300	262	38
Total Supplies and Materials	82,700	94,820	88,065	6,755
CONTRACTUAL:				
Communications - Telephone	6,000	13,542	13,542	-
Communications	1,500	1,500	-	1,500
Insurance & Bonds - Casualty	18,000	18,000	14,929	3,071
Publications & advertising	500	650	607	43
Utilities	310,000	342,012	342,012	-
Association dues	900	900	751	149
Equipment rental	1,800	1,800	-	1,800
Travel	200	200	121	79
Schools	4,200	5,385	5,384	1
Software contract	13,500	15,003	15,003	-
EMS contract	48,500	48,500	46,867	1,633
Total Contractual	405,100	447,492	439,216	8,276
MAINTENANCE:				
Buildings & grounds	400	900	502	398
Janitorial	2,400	2,400	-	2,400
Furniture & Fixtures	400	400	280	120
Machinery & equipment	12,000	14,888	14,887	1
Motor vehicles & maintenance	3,000	3,000	2,909	91
Miscellaneous miscellaneous	500	780	780	-
Total Maintenance	18,700	22,368	19,358	3,010

CITY OF LINDALE, TEXAS
DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS)
WATER & SEWER FUND
YEAR ENDED SEPTEMBER 30, 2008

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
MAINTENANCE - BUILDING & STRUCTURE:				
Sanitary sewers	18,000	38,000	37,526	474
Water mains	18,000	38,000	37,617	383
Plants, towers & wells	230,000	312,345	312,344	1
Total Maintenance - building & structure	266,000	388,345	387,487	858
SUNDRY:				
Legal & professional	37,000	67,000	55,015	11,985
ETS/Bank charges	-	-	1,620	(1,620)
Miscellaneous	50	50	-	-
Transfer to CD's	49,191	49,191	-	49,191
Inspection fees	12,000	12,000	10,959	1,041
Total Sundry	98,241	128,241	67,594	60,597
CAPITAL - BUILDING & STRUCTURE:				
Building & Grounds	2,000	2,000	482	1,518
Service lines (sewer)	3,000	3,000	1,234	1,766
Plants, towers & wells	15,000	15,000	10,391	4,609
Mains	50,000	70,000	68,778	1,222
Wells & pumps	20,000	28,726	28,725	1
Meters & meter boxes	20,000	23,743	23,742	1
Service lines (water)	18,000	56,992	56,992	-
Service man holes	3,000	3,000	9,770	(6,770)
Hydrants & valves	15,000	15,000	29,291	(14,291)
EMS Building	12,800	12,800	12,728	72
Total Capital - building & structure	158,800	230,261	242,133	(11,872)
CAPITAL EQUIPMENT:				
Machinery & equipment	-	-	-	-
Furniture & equipment	200	200	-	200
Communications equipment	800	800	247	553
Other equipment	3,000	4,336	4,336	-
Building & equipment	2,500	2,500	692	1,808
Total Capital Equipment	6,500	7,836	5,275	2,561
TOTAL EXPENSES - BUDGET BASIS	\$ 1,581,300	\$ 1,864,622	\$ 1,764,841	\$ 99,731
Financial Statement Adjustments:				
Depreciation			443,177	
Increase in compensated absences			495	
Capital outlay items not expensed			(120,440)	
Principal payments not expensed			(17,684)	
Decrease in accrued expenses			(6,412)	
TOTAL EXPENSES AND TRANSFERS - GAAP BASIS			\$ 2,063,977	

CITY OF LINDALE, TEXAS
 SCHEDULE OF CHANGES IN GOVERNMENTAL CAPITAL ASSETS - BY SOURCE
 YEAR ENDED SEPTEMBER 30, 2008

	TOTAL	LAND	BUILDINGS	INFRASTRUCTURE	MACHINERY & EQUIPMENT	CONSTRUCTION IN PROGRESS
Governmental assets - October 1, 2007	\$ 14,201,121	\$ 6,099,464	\$ 2,540,970	\$ 4,765,909	\$ 776,978	\$ 17,800
EXPENDITURES FROM GOVERNMENTAL FUNDS:						
<u>GENERAL FUND</u>						
Buildings & improvements	43,764	3,975	31,755	-	-	8,034
Street improvements	30,274	-	-	33,074	-	(2,800)
Infrastructure	-	-	-	-	-	-
Machinery & equipment	52,453	-	-	-	52,453	-
<u>HOTEL/MOTEL TAX FUND</u>						
Buildings & improvements	194,280	-	194,280	-	-	-
<u>LINDALE ECONOMIC DEVELOPMENT</u>						
Building & grounds	312,301	262,502	49,799	-	-	-
GOVERNMENTAL ASSETS -	\$ 14,834,193	\$ 6,365,941	\$ 2,816,804	\$ 4,798,983	\$ 829,431	\$ 23,034

CITY OF LINDALE, TEXAS
 SCHEDULE OF CHANGES IN GOVERNMENTAL LONG-TERM DEBT
 YEAR ENDED SEPTEMBER 30, 2008

	GENERAL OBLIGATION BOND PRINCIPAL							LEDC NOTE PAYABLE	COMPENSATED ABSENCES
	TOTAL	2000 SERIES	2004 SERIES	2004 REF SERIES	2005 REF SERIES	2006 SERIES	CAPITAL LEASE		
Governmental fund debt, October 1, 2007	\$ 18,131,547	\$ 30,000	\$ 2,945,000	\$ 4,215,000	\$ 3,646,679	\$ 3,116,776	\$ 104,540	\$ 3,963,506	\$ 110,046
ADDITIONS									
2006 Certificates of Obligation	-	-	-	-	-	-	-	-	-
2006 Certificates of Obligation Premium	-	-	-	-	-	-	-	-	-
Compensated absences	24,872	-	-	-	-	-	-	-	24,872
Capital lease	-	-	-	-	-	-	-	-	-
Note payable	-	-	-	-	-	-	-	-	-
Accretion of bond defeasance	12,324	-	-	-	12,324	-	-	-	-
Total Additions	37,196	-	-	-	12,324	-	-	-	24,872
RETIREMENTS									
Bond principal:									
2000 Certificates of Obligation	15,000	15,000	-	-	-	-	-	-	-
2004 Certificates of Obligation	185,000	-	185,000	-	-	-	-	-	-
2004 Refunding General Obligation	260,000	-	-	260,000	-	-	-	-	-
2005 Refunding	70,000	-	-	-	70,000	-	-	-	-
Total Bond Retirements	530,000	15,000	185,000	260,000	70,000	-	-	-	-
Other Retirements:									
Compensated absences	-	-	-	-	-	-	-	-	-
Capital lease payments	18,762	-	-	-	-	-	18,762	-	-
Note principal	123,686	-	-	-	-	-	-	123,686	-
Amortization of bond premium	13,871	-	-	-	3,383	10,488	-	-	-
Loss on Defeasance	-	-	-	-	-	-	-	-	-
Total Other Retirements	156,319	-	-	-	3,383	10,488	18,762	123,686	-
GOVERNMENTAL FUND DEBT, SEPTEMBER 30, 2008	\$ 17,482,424	\$ 15,000	\$ 2,760,000	\$ 3,955,000	\$ 3,585,620	\$ 3,106,288	\$ 85,778	\$ 3,839,820	\$ 134,918

OTHER REPORTS

Michael Gollob, CPA-Retired
Tony K. Morgan, CPA/ABV
Robert W. Peddy, CPA
Barbara R. Bass, CPA
Tommy J. Chambers, CPA
Lisa G. Robinson, CPA
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**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 Lindale, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lindale, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City of Lindale, Texas' basic financial statements and have issued our report thereon dated March 17, 2009. 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 Lindale, 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:

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.

Court Non-Cash Adjustments for Jail Time Served

Numerous instances were noted where adequate documentation supporting a defendant's jail time served dismissal could not be located in the Court's files. Procedures should be developed and implemented to obtain sufficient documentation proving a defendant did serve jail time and thus support the non-cash dismissal of the case.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lindale, 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* and which are described below.

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

Gallot Morgan Peddy & Co., P.C.

Certified Public Accountants

Tyler, Texas
March 17, 2009