COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2010

FISCAL Year

2009—2010

City of Sachse, Texas

" Sachse is a tranquil community welcoming the future while offering a safe and enjoyable quality of life to all those who call Sachse home."

CITY OF SACHSE, TEXAS

Comprehensive Annual Financial Report

FISCAL YEAR ENDED

SEPTEMBER 30, 2010

AS PREPARED BY THE

FINANCE DEPARTMENT

CITY OF SACHSE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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City of Sachse

INTRODUCTORY SECTION

City of Sachse

April 20, 2011

Honorable Mayor, City Council,
and Citizens of Sachse

The Comprehensive Annual Financial Report (CAFR) of the City of Sachse, Texas (the City), for the fiscal year ended September 30, 2010, is submitted herewith.

Management assumes full responsibility for the completeness and reliability of information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Rutledge Crain & Company, PC have issued an unqualified ("clean") opinion on the City of Sachse's financial statements for the year ended September 30, 2010. The independent auditors' report is located in the beginning of the financial section of the CAFR.

This letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements.

PROFILE OF THE GOVERNMENT

The City of Sachse, incorporated in 1956, is located in Dallas County and Collin County, Texas, 20 miles northeast of downtown Dallas, on State Highway 78 and currently occupies a land area of 9.8 square miles. The City's population was 20,329 at the end of the fiscal year.

The City Council is comprised of the Mayor and six council members, and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, the City Manager, City Attorney, and Municipal Judge. The City Manager is the chief administrative officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the department heads, and the performance of functions within the municipal organization.

The City of Sachse provides a full range of services including police, fire, emergency ambulance service, library, parks, recreation, sewer, engineering, streets and infrastructure, community development (planning and zoning), and general administrative services.

The financial reporting entity (the government) includes all funds of the primary government (i.e., the City of Sachse as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are legally

separate entities and not part of the primary government's operations. The Sachse Economic Development Corporation (SEDC) is included in the financial statements as a discretely presented component unit.

The annual budget serves as the foundation for Sachse's financial planning and control. Annual budgets are legally adopted for the General Fund, Utility Fund, and Debt Service Fund. Each year the City Manager is required to submit to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers' comments. Prior to October 1, the budget is legally enacted by the City Council through passage of an ordinance, setting the limit for expenditures during the fiscal year. Expenditure appropriations in the adopted budget are by department and may be amended during the year. The City Manager is authorized to adjust budgeted amounts; however, such revisions may not result in total expenditures exceeding budgeted expenditures without approval of the City Council.

As part of each year's budget development process, departments are required to update revenue and expenditure estimates for the current fiscal year. The re-estimated current year budget is submitted to the City Council along with the proposed budget for the next fiscal year. The revised budget is then used as a working budget for the last half of the current fiscal year.

Throughout the year, monthly reports are provided to the individual departments to review and compare actual versus budgeted amounts. The Finance Department also reviews operating revenues and expenditures, recommending adjustments, as needed. On a quarterly basis, the Finance Department submits financial reports to the City Council.

Formal budgetary integration is not employed for the PGBT Tax Increment Financing Zone Fund (TIF) Special Revenue Fund, Utility Fund or Capital Projects Fund. However, the City does adopt an annual budget for those funds for managerial control.

LOCAL ECONOMY

The City of Sachse currently enjoys a stable economic environment and local indicators point to continued stability as part of the Dallas/Fort Worth Metroplex area. The close proximity of major transportation networks in the North Dallas regional area enhances increasing residential and commercial development in the City of Sachse. State Highway 78 connects Sachse to the President George W. Bush Turnpike, the North/South Central Expressway and the North/South Dallas Toll Road. The City is in close proximity to the Dallas Area Rapid Transportation System (DART) which includes both train and bus stations. The total transportation network gives our current and future residents easy access to major industrial and business developments in North Dallas such as the Nortel Communications corridor and many business and industrial developments in Plano. While Sachse is ideal for residential development, it is anticipated that commercial development in the City will continue to increase with the eastern expansion of the George W. Bush Turnpike (Highway 190) to IH 30, which is scheduled for completion in December 2011. In planning for this expansion, the City of Sachse has put in place a Tax Increment Financing Zone (TIF). The TIF Zone contains approximately 540 acres of commercial development.

Property Values – Assessed property values increased $2,749,568 (0.22%) from the preceding year with $26,782,088 new property and a $24,032,520 (1.98%) decrease in the value of existing property. During the last five years, assessed property value has increased 27.9 % and property taxes account for 60 % of the General Fund revenue. With a well-educated populace and average household income of $82,219, Sachse enjoys an exceptionally high property tax collection rate.

Long-Term Strategic Planning – Long-term vision and strategic planning have been the catalyst for the City's transformation of shaping Sachse into a friendly, vibrant community offering a safe and enjoyable quality of life to all who call Sachse home. The City's annual budget process involves incorporating the goals and strategies

identified by the City Council. Individual departments develop their goals and objectives in terms of these all-encompassing organizational goals. Priorities during the 2009-2010 budget year were:

- Transportation – Improve mobility through the City
- Infrastructure – Systematically invest in public infrastructure
- Facilities – Analyze and plan for future facility needs beyond current construction
- Fiscally Sound – Negotiate strongly on all agreements
- Economic Development – Provide economic investment that increases employment opportunity, the tax base, and provides desired goods and services for residents and contributes to the community character and identify
- Public Safety and Security – Enhance neighborhood livability and safety
- Planning – Proactively work to keep various plans reviewed and updated
- Open Government – Increase public awareness using multiple communication sources
- Arts, Culture and Recreation –Enhance and communicate Sachse's activities to the community

Strategic Financial Plan – An appropriate financial plan for the City of Sachse requires many elements all working in concert with one another. Additional demands for "essential" City services such as police, fire, sewer, drainage and street improvements is anticipated. The Finance Department's management role will be to maintain and enhance financial plan elements and ensure the continued financial stability for the City of Sachse.

Financial Resource Planning – Strategic planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis techniques and careful reserve analysis will preserve the fiscal well being of Sachse. Strategic planning is a critical element not only to meet long-term financial stability goals but to determine City Council objectives that will require special financial planning to achieve success.

Capital Improvement Planning – The City of Sachse's Capital Improvement Program is a multi-year financial plan for the acquisition expansion, or rehabilitation of infrastructure, capital assets, or productive capacity of City services. The City's operating and capital project budgets are closely linked.

Revenues for the capital budget come from bond sales, development fees, intergovernmental revenues and current operating revenues. The Capital Improvement Program, unlike the operating budget, is a five-year plan that is reviewed and projects are reprioritized as needed. Project budgets are used as a guide for projects, debt, and other related budget planning. As such, plans for future years are subject to change.

Debt Management – All debt issuances are for the purpose of financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated against multiple policies addressing: debt service as a percent of operating expenditures, tax and revenue bases for the repayment of debt, the overall debt burden on the community, statutory limitations and market factors affecting tax-exempt interest costs. Sizing of the City's capital improvement program based on debt capacity in conjunction with conservatively estimated pay-as-you-go revenues help stabilize per capita debt and lower annual debt service costs to the City for the long-term.

Cash Management Policies and Practices – The City of Sachse's investment policy is to invest all City funds at the highest available interest rate, assuring that all monies are fully secured with emphasis on safety of principal, liquidity, yield, diversification, and public trust. State statues authorize the City to invest in U.S. Government obligations, state investment pools, commercial paper, obligations of Texas and its agencies and fully collateralized repurchase agreements. The City utilizes a pooled cash concept in order to invest greater amounts of cash at one time and therefore receives more favorable interest rates.

Insurance and Risk Management – The City has a comprehensive risk management program, including property, liability, safety, worker's compensation, health, dental and wellness. The safety incentive program promotes

employee safety on the job and focuses on risk control techniques designed to minimize accident-related losses. In addition to the safety program's preventive measure, claims are closely monitored in order to minimize the City's liability exposure. To reduce health claim costs, the City promotes a wellness program to improve employee awareness of exercise, nutrition and lifestyle choices.

FISCAL YEAR 2010 HIGHLIGHTS

The North Texas Tollway Authority (NTTA) Eastern Extension of the President George Bush Turnpike from State Highway 78 in Garland to Interstate Highway 30 in Rowlett is currently under construction. The 9.9 mile segment will result in a six-lane toll road passing through Garland, Sachse and Rowlett. The turnpike will increase Sachse's regional accessibility and open up a portion of the City, currently agricultural land, to development. Construction commenced in the last quarter of 2008 with an anticipated completion and opening in the fourth quarter of 2011.

The citizens of Sachse voted for General Obligation Bonds in the amount of $37,925,000 for facilities, parks and transportation in November 2007. The GO Bond program is currently in progress. Construction on the Municipal Complex is nearing completion with an anticipated completion during the third quarter of 2010. The Salmon Park Improvement project is complete. Major street improvements to 5th Street and Dewitt Road will be completed in 2010. Bunker Hill Road is being designed with final alignment completed and right of way acquisition underway.

The City completed several roadway projects in 2010. 5th Street from State Highway 78 to Ingram Road was improved from a 2-lane roadway to a 4-lane divided thoroughfare. The 4-lane thoroughfare was continued north to Ranch Road in the Dewitt Road project. The adjacent projects improve mobility between State Highway 78 in Sachse and Farm to Market Road 544 in Wylie.

The Texas Department of Transportation completed paving of State Highway 78 through Sachse, widening it from 4-lanes to 6-lanes for improved mobility thorough the City.

The City has signed an agreement with the Texas Department of Transportation for modifications to State Highway 78 at Woodbridge Parkway for a grade crossing at Woodbridge Parkway and State Highway 78. The addition of this crossing is for the enhancement of mobility but will create a commercial development in the northwestern quadrant of the City.

The Texas Department of Transportation project to widen State Highway 78 from Rowlett Creek in Garland to Spring Creek Rd in Wylie is underway. The widening project will increase the highway to a six-lane divided thoroughfare. Construction within the City limits was completed during the third quarter of 2010. In conjunction with the widening, the Sachse Park Department relocated twenty trees from the median to City parks.

The Tax Increment Financing Zone (TIF) District completed construction on a sixteen and twelve inch water distribution system along the President George Bush toll road in the southern part of the city. The waterlines will supply future development in the southern areas of the city.

The Animal Shelter driveway renovation project was completed in 2010. The driveway from Sachse Road to the Animal Shelter facility was concreted and widened to accommodate two lanes of traffic.

The City continues to work with the City of Wylie and Collin County on the design of a new Hooper Road bridge across Maxwell Creek. The bridge will eventually connect Hooper Road in Wylie to Woodbridge Parkway in Sachse that will improve regional mobility.

The City approved the Sachse Turnpike Overlay Zoning District to promote high quality commercial development along the President George Bush Turnpike. The overlay district is intended to prepare the properties for commercial growth by adopting unified zoning standards for the district.

AWARDS AND ACKNOWLEDGEMENTS

Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sachse for its CAFR for the fiscal year ended September 30, 2009. This was the eleventh consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements – Many people are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to representatives of Rutledge Crain & Company PC for their invaluable assistance in producing the final document and to the Finance team who were instrumental in the completion of this report.

We would also like to thank the City Manager's office and the members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectively submitted,

Jeri L. Rainey, CPA
Interim City Manager
Finance Director

Teresa C. Savage
Finance Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sachse
Texas

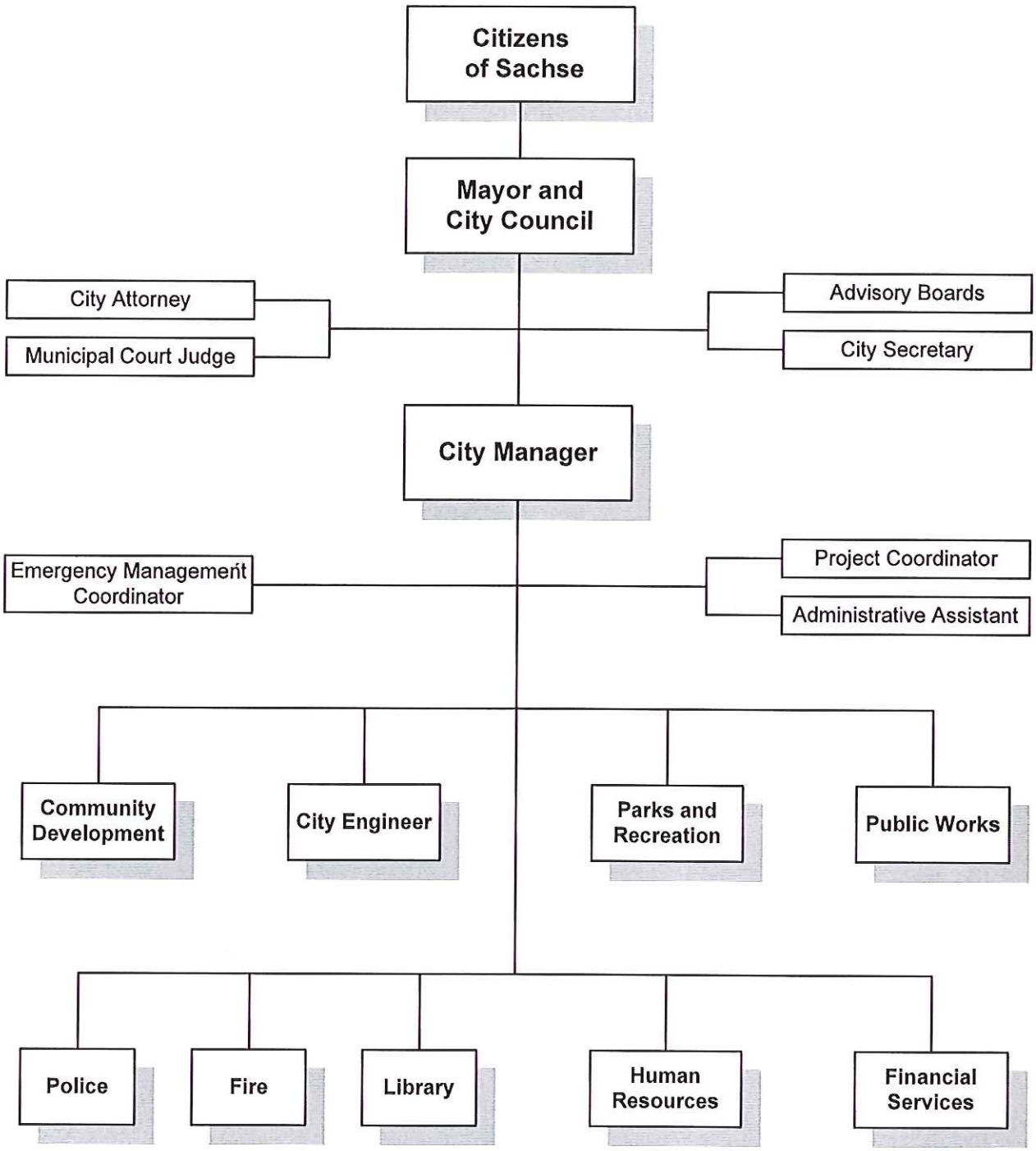
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

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

President

Executive Director

City of Sachse
Organizational Chart



As of 4/4/2011

CITY OF SACHSE, TEXAS

CITY OFFICIALS

Council Members

Mayor	Mike Felix
Mayor Pro Tem	Cullen King
Council Member	Bill Adams
Council Member	Patsy "Pat" McMillan
Council Member	Jared Patterson
Council Member	Charles Smith
Council Member	Mark Timm

Management Staff

Interim City Manager/Finance Director	Jeri Rainey
City Secretary	Terry Smith
Community Development Director	Barry Shelton
City Engineer	Billy George
Economic Development Corporation Director	Carlos Vigil
Fire/EMS Chief	Douglas Kendrick
Human Resources Director	Cheree Bontrager
Library Director	Dolores Greenwald
Parks/Senior Center Director	Lance Whitworth
Police Chief	Dennis Veach
Public Works Director	Joe Crase

FINANCIAL SECTION

City of Sachse

RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
2401 Garden Park Court, Suite B
Arlington, Texas 76013

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Sachse, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sachse, Texas, as of and for the year ended September 30, 2010, 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 Sachse, 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. 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sachse, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages15 through 27 and 65 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sachse, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them

Rutledge Crain & Company, PC

April 22, 2011

Metro (817) 265-9989
Members:
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
Fax (817) 861-9623

City of Sachse

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Sachse

As management of City of Sachse, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities (net assets) at September 30, 2010 by $67,861,399. Of this amount, $6,955,651 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net assets decreased by $4,241,398. The majority of the City's net assets are invested in capital assets or restricted for specific purposes. Decreases in cash and cash equivalents were offset by increases in capital assets; the primary change from the previous year was in total liabilities, which increased $5,277,538.

- The City's governmental funds reported combined ending fund balances of $18,322,495 at September 30, 2010, a decrease of $17,354,693 from the prior fiscal year.

- At the end of the fiscal year, unreserved fund balance for the General Fund was $3,051,597 or 29% of total General Fund expenditures.

- The City's outstanding bonds payable decreased by $810,000 or 2% of the City's total debt outstanding at the beginning of the fiscal year. The total bonds payable at the close of the fiscal year was $42,310,000 including self supporting debt of the proprietary fund which was $1,295,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. Two statements, the Statement of Net Assets and the Statement of Activities, are utilized to provide this financial overview.

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. To assess the overall health of the City, other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure.

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 when the underlying event giving rise to the change

occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

These two government-wide financial statements also distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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 and administration, public safety, public works, development services, and cultural and recreation. The business-type activities of the City include water and sewer operations.

In the government-wide financial statements, pages 31 through 33, the City is divided into three kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including the police, fire, library, community development, parks and recreation, municipal court, and general administration. Property and sales taxes, charges for services and franchise fees finance most of these activities.

- **Business-type activities** – The City's water, sewer and solid waste operations are reported here. These are functions intended to recover all or a significant portion of their costs through user fees and charges.

- **Component units** – The City includes two separate legal entities in this report: the Sachse Economic Development Corporation (SEDC), a discrete component unit and the George Bush Turnpike Reinvestment Zone (TIF), a blended component unit. Although legally separate, these component units are important because the City is financially accountable for them.

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

Governmental Funds - Governmental funds are used to account for the majority of the City's activities which are essentially the same functions 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 resources available for future spending at fiscal year end. The governmental fund statement provides a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources than can be spent in the near future to finance the City's programs. In short, this information is useful in evaluating a governments near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing

decisions. A reconciliation is provided on page 37 that details the relationships or differences between Governmental Funds Balance Sheet to the Statement of Net Assets as reported for governmental activities.

Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. This reconciliation can be found on page 41.

The City maintains three major governmental funds – the General Fund, Debt Service Fund and Capital Projects Fund. Information is presented separately in the Governmental Funds Balance Sheet (page 34). In the governmental fund financial statements the City maintains two non-major governmental funds, Special Revenue Fund and PGBT (TIF) Fund which are reported as Other Governmental Funds. The basic governmental funds financial statements can be found on pages 34 through 39.

Enterprise Fund - The City maintains only one proprietary fund or enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City charges customers for the services it provides. The City uses an enterprise fund to account for its water and sewer and sanitation operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. Proprietary financial statements 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 Fund since it is considered a major fund of the City. The basic proprietary fund financial statements can be found on pages 42 through 44 of this report.

Component Units - The City maintains the accounting and financial statements for two component units. The Sachse Economic Development Corporation is reported as a discrete component unit on the government wide financial statements. Its separate fund information is included in the notes to the financial statements. The George Bush Turnpike Reinvestment Zone is reported as a blended component unit. Its financial information may be found in the combining balance sheet (Exhibit C-3) and combining statement of revenues, expenditures and changes in fund balances (Exhibit C-4).

Notes to the Financial Statements - Additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements is provided in the notes to the financial statements found on pages 45 through 62.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the General Fund in Exhibit B-1 on page 65. Budgets for nonmajor governmental funds are included as other supplementary information. The exhibits present budget basis information for governmental funds that have legally adopted budgets. There are combining balance sheets and combining statements of revenues, expenditures, and changes in fund balances for each non-major governmental fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and net assets by category may serve over time as a useful indicator of the City's financial position. The City's assets exceeded liabilities by $67,861,399 as of September 30, 2010. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are $21,367,528 while the governmental activities' net assets are $46,493,871.

The largest portion of the City's net assets (84%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. 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.

Table 1
Net Assets

	Government Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other	$ 30,489,730	$ 41,265,109	$ 4,563,014	$ 4,674,878	$ 35,052,744	$ 45,939,987
Capital assets	69,136,334	55,612,018	19,060,521	19,885,141	88,196,855	75,497,159
Total Assets	99,626,064	96,877,127	23,623,535	24,560,019	123,249,599	121,437,146
Long-term Liabilities	41,286,692	42,019,871	1,321,364	1,478,409	42,608,056	43,498,280
Other Liabilities	11,845,501	5,255,882	934,643	580,187	12,780,144	5,836,069
Total Liabilities	53,132,193	47,275,753	2,256,007	2,058,596	55,388,200	49,334,349
Net Assets:						
Invested in capital Net of related debt	39,179,257	39,684,306	17,765,521	18,510,141	56,944,778	58,194,447
Restricted	3,960,970	6,691,500	-	-	3,960,970	6,691,500
Unrestricted	3,353,644	3,225,568	3,602,007	3,991,282	6,955,651	7,216,850
Total net assets	$ 46,493,871	$ 49,601,374	$ 21,367,528	$ 22,501,423	$ 67,861,399	$ 72,102,797

2009 Restated

An additional portion of the City's net assets, $3,960,970, represents resources that are subject to external restrictions on how they may be used; the remaining balance of $3,353,644 may be used to meet the government's ongoing obligations to citizens and creditors. A summary of the City's operations for the year ended September 30, 2010 is provided in Table 2.

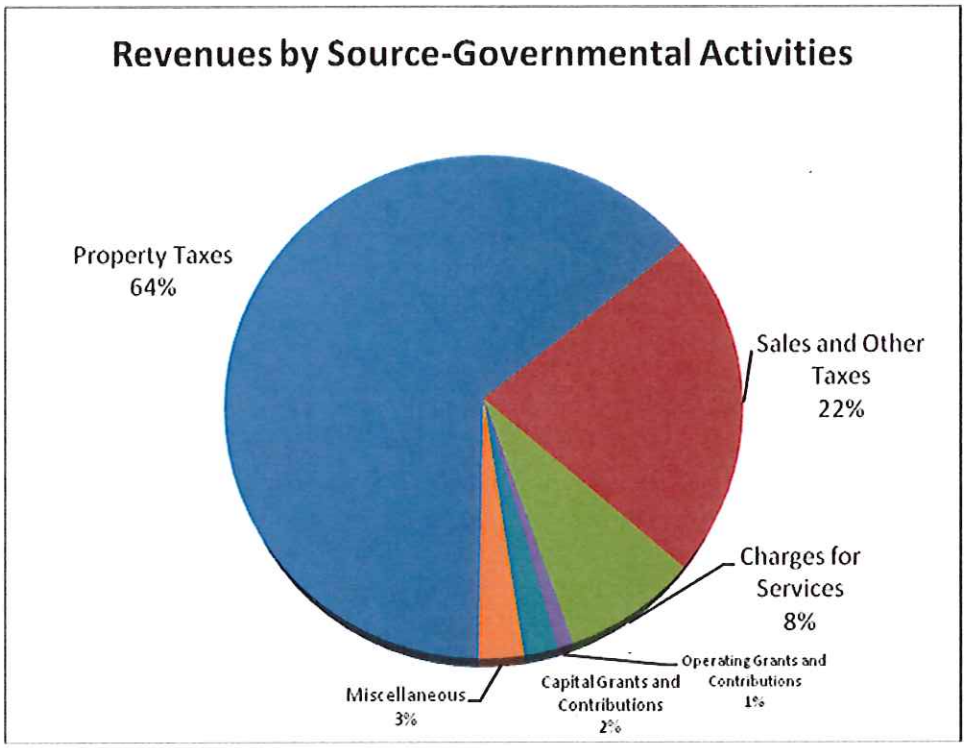
Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue:						
Program revenue						
Charges for services	$ 1,095,752	$ 1,125,342	$ 5,273,953	$ 4,863,884	$ 6,369,705	$ 5,989,226
Operating grants and contributions	128,218	124,155	-	-	128,218	124,155
Capital grants and contributions	272,333	78,763	385,859	1,127,986	658,192	1,206,749
General revenue						
Property tax	8,526,042	7,304,775	-	-	8,526,042	7,304,775
Sales and other taxes	1,862,552	2,273,744	-	-	1,862,552	2,273,744
Franchise taxes	1,083,810	1,246,015	-	-	1,083,810	1,246,015
Beverage taxes	19,565	17,695	-	-	19,565	17,695
Unrestricted investment earnings	279,896	420,591	22,281	64,398	302,177	484,989
Miacellaneous revenue	75,326	112,734	-	-	75,326	112,734
Gain (loss) on sale of assets	-	333	-	-	-	333
Total revenue	13,343,494	12,704,147	5,682,093	6,056,268	19,025,587	18,760,415
Program expenses:						
General government	2,234,555	2,306,206	-	-	2,234,555	2,306,206
Public safety	5,529,604	5,196,405	-	-	5,529,604	5,196,405
Public works	5,752,940	5,322,948	-	-	5,752,940	5,322,948
Culture and recreation	1,234,883	1,365,603	-	-	1,234,883	1,365,603
Community development	630,764	617,616	-	-	630,764	617,616
Interest on long-term debt	1,932,003	1,463,452	-	-	1,932,003	1,463,452
Water and sewer operations	-	-	5,952,236	5,469,572	5,952,236	5,469,572
Total expenses	17,314,749	16,272,230	5,952,236	5,469,572	23,266,985	21,741,802
Excess before transfers	(3,971,255)	(3,568,083)	(270,143)	586,696	(4,241,398)	(2,981,387)
Transfers in	863,752	414,607	-	-	863,752	414,607
Transfers out	-	-	(863,752)	(414,607)	(863,752)	(414,607)
Increase (decrease) in net assets	(3,107,503)	(3,153,476)	(1,133,895)	172,089	(4,241,398)	(2,981,387)
Net assets - beginning	49,601,374	52,754,850	22,501,423	22,329,334	72,102,797	75,084,184
Net assets - ending	$ 46,493,871	$ 49,601,374	$ 21,367,528	$ 22,501,423	$ 67,861,399	$ 72,102,797

2009 Restated

Governmental Activities

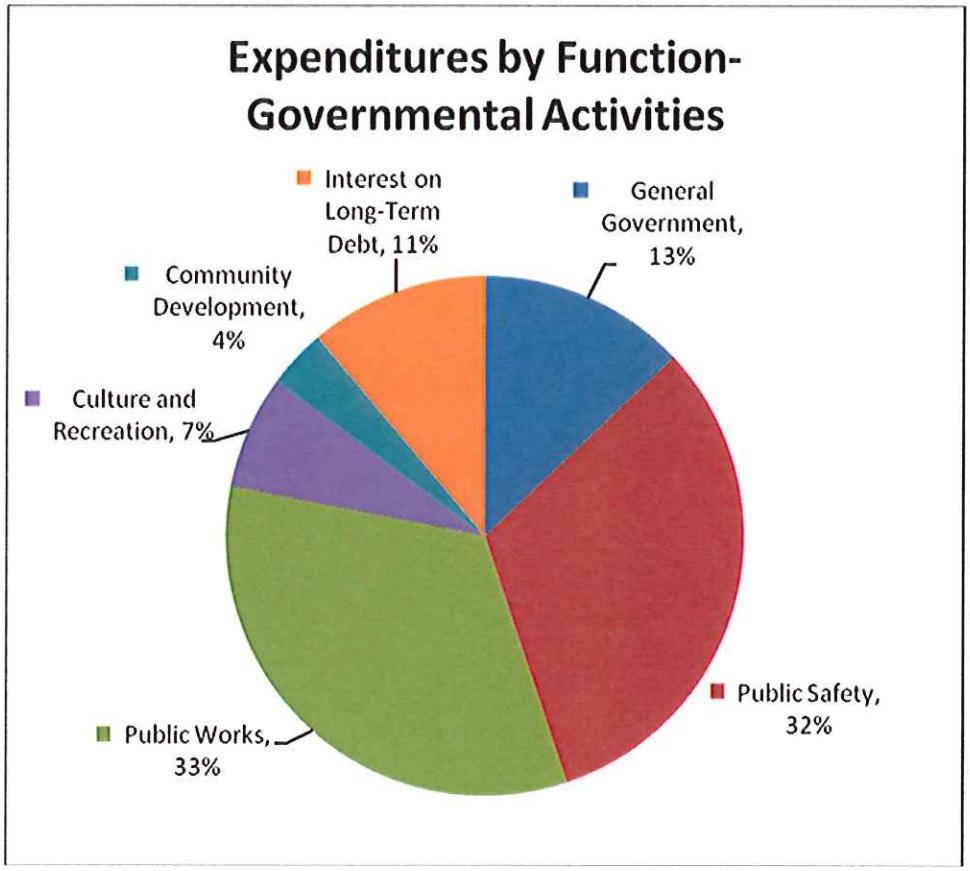
Revenues – The following chart visually illustrates the City's revenue by sources for governmental activities.



Revenues for the City's governmental activities increased by $639,347 or 5%. Major components of revenue decreases/increases are explained as follows:

- Property taxes increased by 17% or $1,221,267. Some of this increase is from new construction values. The City's tax rate has increased marginally as a result of the first phase of bond debt issuance.
- Charges for services decreased by 3% or $30,876 which is primarily related to a decrease in the issuance of permits and the decrease in municipal court fines.
- Sales, franchise and beverage taxes decreased by 16% or $571,527. The City's franchise revenue continues to increase as a result of growth in end users. Sales tax experienced a decrease due to the decrease in retail sales. The economic development incentives are in place in accordance with the Texas Economic Development 380 Act.
- Investment earnings, which are in the other category of general revenues, declined $141,695.

Expenditures – The following chart visually illustrates the City's expenditures by function for governmental activities.



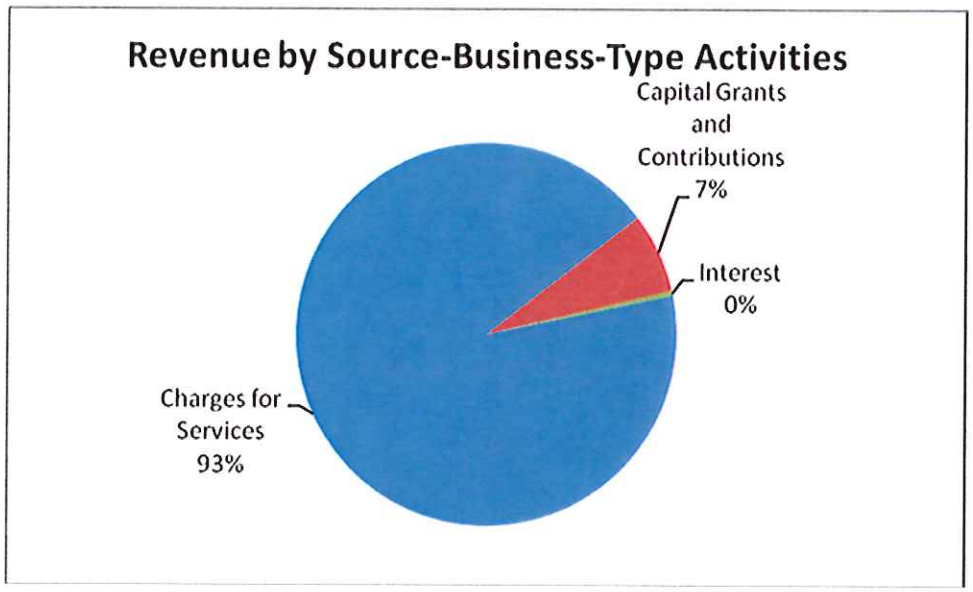
Expenses for governmental activities were increased by $1,283,839 or 8%. Components of increases and decreases are explained as follows:

- General Government decreased by $71,651 or 3%
- Public Safety increased by $333.199 or 6%
- Public Works increased by $429,992 or 8%
- Culture and Recreation decreased by $130,720 or 10%
- Community Development decreased by $13,148 or 2%
- Interest on long term debt increased by $709,871 or 58% due to the 2009 issuance of bonds and the associated costs

The increase in expenses were due primarily due to public works projects, continuing construction of the municipal campus, payment of debt and other budgeted expenditures.

Business-type Activities:

Revenues – The following chart visually illustrates the City's revenue by source for business-type activities.



Business-type revenues decreased $374,175 or 6%. Major components of the decreases/increases are as follows:

- Charges for services increased by 8% or $410,069
- Capital grants and contributions decreased by 66% or $742,127 which is from infrastructure assets contributed by the development community.
- Investment earnings decreased by 65% or $42,117 for business-type activities because of a weak market during the fiscal year and a decrease in reserve funds.

Expenses for business-type activities increased by $465,076 or 8%. Overall operating expenses decreased slightly, but were offset by increased contractual expenses for sewer treatment(up $622,719 over the previous year) and water supply(up $80,768 over the previous year).

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

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

At the end of the current fiscal year, the City of Sachse's governmental funds reported combined ending fund balances of $18,322,495, a decrease of $17,354,693 in comparison with the prior year. Approximately 97% or $17,698,059 of this total amount constitutes unreserved and undesignated fund balances. The unreserved funds are summarized below:

General Fund	$ 3,051,597
Debt Service	
Special Revenue Fund	235,652
Capital Projects Fund	14,410,810
Total Unreserved	$ 17,698,059

The general fund is the main operating fund of the City of Sachse and at the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was $3,051,597. There was a 9% decrease or $293,201 in unreserved, undesignated general fund balance over last year. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The fund balance of General Fund represents 30% of total general fund expenditures.

The fund balance of the City of Sachse's general fund decreased by $245,080 after transfers. This decrease is attributable to a reduction in sales and franchise taxes due to the economic slowdown which continued into FY2010.

Other governmental funds which include special revenue and debt service funds increased for a combined total of $879,997 with a fiscal year ending combined fund balance of $810,273. The Capital Project Fund ending fund balance is $14,410,810. Sales tax proceeds that are set aside specifically for infrastructure projects as well as voter approved bond projects are recorded in this fund. During the year the City expended $18,269,229 on various roadway projects and the municipal complex venture from the Capital Project Fund. The 2006 bond package authorized new municipal facilities as well as parks and transportation projects. Construction on the municipal complex is underway with anticipated occupancy by late summer 2010. The transportation projects were the 5th Street and Dewitt Road widening project; Bunkerhill widening project; Murphy Road improvement project; and SH78 and 5th Street intersection improvements. The City received $1,216,191 in sales and other taxes to be used toward street infrastructure projects as indentified in the City's capital improvement plan.

Proprietary funds

The City's proprietary fund or enterprise fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Net assets in the Proprietary Fund totaled $21,367,528. Unrestricted net assets of the enterprise fund at the close of the fiscal year amounted to $3,602,007. The total decrease in net assets for the water and sewer enterprise fund was $1,133,895. The investment in capital assets, net of related debt is $17,765,521. The capital assets of the water and sewer enterprise fund total $39,677,082 at original cost and after depreciation the value is $19,060,521. The City operates and maintains a water and sewer distribution system with force mains and lift stations. The City has four water storage facilities with a total capacity of approximately five million gallons. Other factors concerning the finances of the water and sewer enterprise fund have already been addressed in the discussion of the City's business-type activities. However, the following are additional comments regarding operations of the enterprise fund:

- Capital Improvements were $616,269.
- Operational expenses excluding depreciation and amortization were $4,746,099 while the total was $5,895,910.
- Cash and cash equivalents in the enterprise fund were $2,072,901 at fiscal year end.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor with no change in the revenue budget and a $118,194 increase in the appropriations budget. $116,375 of this was in the Animal Control Department for improvements to the facility. There was a negative variance of $333,993 under budgeted general fund revenues. Sales and franchise taxes were $285,541 less than the projected; while licenses, fees, and permits were $37,509 more than budgeted. The following are additional comments regarding appropriations:

- There was a positive variance of $290,688 in budgeted appropriations with the largest positive variance in public safety of $114,409. This savings is from personnel and benefits as a result of turnover and delay in hiring.
- $43,305 is the deficit of revenues under expenditures before transfers.
- As stated in an earlier discussion the net negative change in fund balance is $88,861.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Sachse's investment in capital assets for its governmental and business-type activities as of September 30, 2010 amounts to $88,196,855 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, equipment, park improvements and infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was 17% (24% for governmental activities and -4% for business-type activities) or $12,699,697 (net of depreciation). Additional information on the City of Sachse's capital assets can be found in notes to the financial statements of this report. Major capital asset events during the current fiscal year included the following: 1) For governmental activities, Salmon Park improvements, a new fire engine, animal shelter driveway renovations, Bunker Hill Road improvements, 5th Street widening, Murphy Road widening, DeWitt Road improvements, Merritt Road improvements, State Highway 78 and 5th Street intersection redesign, and construction on the municipal campus; 2) For the business-type activities, continued work on the waterline in the George Bush Turnpike TIF district and a pipeline video system.

The following table summarizes the capital asset balances at year end September 30, 2010:

Table 3
Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 1,237,774	$ 1,237,774	$ 346,821	$ 346,821	$ 1,584,595	$ 1,584,595
Construction in progress	13,888,483	9,052,094	74,498	975,915	13,962,981	10,028,009
Buildings	8,464,407	2,908,128	113,141	125,876	8,577,548	3,034,004
Park improvements	1,734,335	816,575	-	-	1,734,335	816,575
Infrastructure	42,122,533	40,525,036	18,252,745	18,158,807	60,375,278	58,683,843
Vehicles and equipment	1,150,221	701,782	258,862	243,836	1,409,083	945,618
Other equipment	538,581	370,629	14,454	33,886	553,035	404,515
Total	$69,136,334	$55,612,018	$19,060,521	$19,885,141	$88,196,855	$75,497,159

Long-term debt

At the end of the current fiscal year, the City of Sachse had total bonded debt obligations of $42,310,000. Of this amount, $1,295,000 is self-supporting through revenues collected from the rates of the City's enterprise fund or utility fund. All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the enterprise/utility system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions. The following table provides additional information on the City's outstanding long-term obligations:

Table 4
Outstanding Debt at Year-end
Bonds and Other Long Term Debt

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Gross bonded debt						
General obligation	$39,935,000	$40,510,000	$0	$0	$39,935,000	$40,510,000
Certificates of obligation	1,080,000	1,235,000	1,295,000	1,375,000	2,375,000	2,610,000
Total bonded debt	$41,015,000	$41,745,000	$1,295,000	$1,375,000	$42,310,000	$43,120,000
Other Long-term debt						
Compensated absences	309,234	314,287	26,364	23,409	335,598	337,696
Total	$41,324,234	$42,059,287	$1,321,364	$1,398,409	$42,645,598	$43,418,280

The City's bonds are insured resulting in an A rating. The underlying rating from both Moody's Investors Service and Standard and Poor's for the City's General Obligation Bonds, and Certificates of Obligation are shown below in Table 5. Additional information on the City's long-term debt can be found in Note 5.

Table 5
Bond Ratings

	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	A2	AA-/Stable
Certificates of Obligation	Not rated	AA-(SPUR)/Stable

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sachse maintained the 2010-2011 tax rate of $.705819 per $100 of assessed value. In the fiscal year 2010-2011 Budget, General fund revenues are budgeted to increase by approximately 4.3%. The increase is primarily from property taxes associated with growth in residential home values, permitting activity and retail businesses. Property taxes make up about 60% of the total General Fund revenues for fiscal year 2010-2011. The City will focus on transportation improvements impacting traffic flow throughout the city thoroughfare. The City looks to increase traffic capacity by improving the road volume throughout the city.

Future operational and capital budgets and tax rate planning will be of utmost importance as the City continues to grow. The City, like most of the north Texas area, has experienced the economic impact of the down turn in the housing market. The City will continue to work toward diversifying its revenue base

with a mix of residential and commercial development that will generate additional revenues to replace residential permitting fees that the City has been dependent on for the last five to ten years. However, the City continues to see the development community continue to plat and provide buildable residential properties in the City. Commercial retailers and businesses continue to be attracted to Sachse according to the City's economic development leaders. In the near term future budgets will be impacted positively with the development of the President George Bush Turnpike TIF Zone.

- The City continues to maintain a fund balance equal to or greater than 15% of operating expenditures in all governmental fund types. The policy objectives are to maintain a minimum of a 15% reserve in all operating funds.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance at 3815-B Sachse Rd., Sachse Texas 75048 or call 972-495-1212.

City of Sachse